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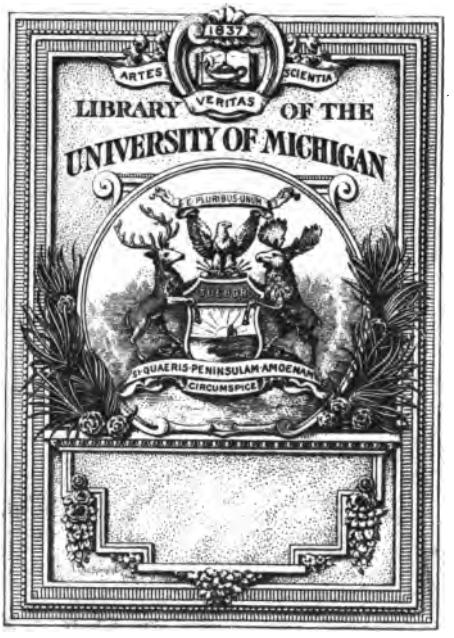
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THE PRINCIPLES

OF

CURRENCY AND BANKING.

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THE PRINCIPLES

OF

CURRENCY AND BANKING:

BEING

Five Lectures

DELIVERED IN

QUEEN'S COLLEGE, CORK,

TO THE

STUDENTS IN ARTS OF THE THIRD YEAR.

BY

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SECOND EDITION, REVISED AND CORRECTED.

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PREFACE.

In the present edition of these Lectures I have corrected some inaccuracies which occurred in the first. I have in many places, where my meaning seemed to be obscure, endeavoured to make it plain; and I have, in some instances, altered the arrangement of the subjects. I believe that they are thus better worthy of acceptance than they originally were, and that they are now probably as complete as I shall be able to make them until experience shall have thrown some more light upon the subject.

The recent debate in the House of Commons, on the motion of the Chancellor of the Exchequer, for a Select Committee to inquire into the operation of the Bank Act of 1844, shows that the policy of that measure is by no means universally acquiesced in. I confess, however, that the interval of more than three years which has elapsed since the first edition of these Lectures was published, has but confirmed me in the

opinion, which I then expressed, as to the wisdom—indeed, I may say, the indispensable necessity—of having our monetary system based upon the principle which that Act affirms. Some confusion seems to me to have arisen from not distinguishing between the principle of that measure and its details. The latter may be varied from time to time, while the former is maintained in its integrity. The great principle of the Act I take to be this: that there shall always be some limited sum, beyond which no issue of notes shall be made on securities; that this sum shall be so low that there shall be no possibility of the circulation falling below it by any drain for gold; that all issue beyond this sum shall be made in exchange for the precious metals; and that to this latter issue there shall be no limit. Every other provision of the Act is of importance only as it contributes to sustain this leading principle. Thus the amount which the bank may issue on securities, whether the present sum of fourteen millions or a larger amount—the proportion of silver to gold bullion which it may hold—the relation which it should bear to the department of public issue—all these, and other instances which might be given, are but subordinate provisions, which may be varied or

modified from time to time, as it may be deemed expedient, provided only that the great principle of the Act be not encroached upon.

I have endeavoured in these Lectures to discuss every matter which could legitimately be included in a treatise on the principles of Currency and Banking. Many valuable works have been published at various times upon detached portions of this subject, but it appeared to me that there was still room for a treatise, complete in itself, and embracing the entire subject, and this want I have here attempted to supply.

CONTENTS.

LECTURE I.

	Page
Introductory,	1
Necessity for a common medium of exchange,	5
Various commodities which have been selected for this purpose,	ib.
Qualities possessed by the precious metals which fit them for the common medium of exchange,	6
Sense in which the precious metals are said to possess steadiness of value,	7
Importance of steadiness of value in the medium of exchange,	9
The precious metals were first used in the form of ingots,	11
Advantages gained by coining the precious metals,	ib.
Standards of weight and fineness of our coins,	12
If light coins were allowed to circulate, the difficulty of restoring a degraded currency would be increased,	13
Proportional value of gold and silver, according to the standard of our mint,	14
By a comparison of the standards of different countries the par of exchange is discovered,	ib.
Par of exchange, definition of,	ib.
The par of exchange between countries which have adopted different metals as their standard, how ascertained,	15
Coined money should naturally be more valuable than the bullion of which it is composed,	ib.

Page

This difference in the value of gold coin and bullion does not exist in these countries, because of the regulations of the English mint, ... 16

The market price of gold in these countries very nearly conforms to its mint price, ... ib.

Causes which now produce a slight but permanent depression of the market price under the mint price of gold, ... 17

Causes which formerly had the effect of raising the market price above the mint price of gold, ... 18

1st. The laws prohibiting the exportation of gold coin, ... ib.

2nd. The deterioration of the coinage by loss of weight, ... 21

3rd. The over-issue of inconvertible paper, . ib.

An exception to the rule of conformity in the market and mint price of gold has occasionally arisen when the bank has been the purchaser, ... 20

Instances of this exception, ... 21

It is both unnecessary and impolitic for the bank thus to pay more than the mint price for bullion, ... ib.

Mode in which the coffers of the bank should be supplied, ... ib.

The rule as to coincidence of the market price and the mint price of gold bullion does not extend to silver, for two reasons, ... 22

1st. The mint is not open to every importer for the coinage of silver, ... ib.

2nd. There is a seignorage charged on the coinage of silver, ... ib.

A seignorage—its nature and effects, ... 23

The seignorage on our silver, though high, is practically of little consequence, ... 24

Use of our silver and copper coinage, ... ib.

LECTURE II.

Page

The relative value of gold and silver will vary from that which is fixed by the mint regulations, . . . 25
This impossibility of maintaining any fixed proportion in the relative value of those metals, leads to the consideration of a double standard, ... ib.
A double standard—its advantages and disadvantages, . 26
Instances of the effects of such a standard, . . 28
Effects of an increase in the amount of the circulating medium on the condition of the community, . . 29
The value of the currency depends, not only on its amount, but also on the rapidity of its circulation, . . 31
Formula of Mr. Mill on this subject, . . . ib.
An alteration in the general level of prices has frequently preceded an increase in the amount of the circulation, . 32
Such alteration of prices is then occasioned by three circumstances, ... ib.
1st. By greater rapidity of circulation, . . ib.
2nd. By extension of credit, . . . ib.
3rd. By the increased quantity of bills of exchange, ... ib.
Two questions naturally suggest themselves, with reference to the amount of the currency, ... 33
1st. What amount is sufficient for the requirements of the country, ... ib.
2nd. What proportion should a sufficient currency bear to the products or to the exchanges of the country, or to any other quantity with which it should correspond, ... ib.
First question considered, . . . 34
Second question, difficulty of, . . . 35
Mr. Locke's opinion on the second question, . ib.

The general level of prices is higher in some countries than it is in others, ... 36

Page

This difference in the general level of prices, in different countries, would subsist, even though the currency were exclusively metallic, ... 37
Classes of products in which this difference in the general level of prices is found to subsist, . . . ib.
Circumstances by which this is occasioned, . . 38
Circumstances which determine the general level of prices, in countries which have a metallic circulation, and which do not possess mines, ... 39
Circumstances which incline a country to apply a greater or less amount of its exports to the purchasing of the precious metals, ... 41
Circumstances under which an advantage may be derived from the general level of prices being high, . . 42
It is with reference to this general level of prices, that money is said to rise or fall in value, . . . 43
Action of the alteration of prices in different countries on the transit of the precious metals from one country to another, ... ib.

LECTURE III.

The transit of the precious metals from one country to another is practically brought about through the medium of the exchanges, ... 46
Nature of the exchanges, ... ib.
Real exchange, ... 47
The rise or fall of the real exchange is limited by the price of transporting bullion, ... 48
The remittance of bullion is practically made by the bullion merchant, ... 49
The fall of the real exchange is checked before it reaches this limit, ... ib.

Page

Action of the real exchange on the exports and imports of the country, ... 50
Nominal exchange, ... ib.
Circumstances by which it may be affected, . ib.
Effect of a degradation of the coinage on prices, supposing that there were no foreign trade, ... 52
Effect of an adverse nominal exchange, occasioned by degradation of the coinage, on the foreign commerce of the country, ... 53
Effect of an adverse nominal exchange, occasioned by over-issue of inconvertible paper, or of any other circulating medium which does not admit of exportation and importation, on the foreign commerce of the country, . 54

The principal defects of a metallic currency are its cumbrousness, its insecurity, and its cost, . . . 55
Further objection which has been made to a metallic and also to a convertible currency, because of their liability to expansion and contraction, ... ib.
Such expansion and contraction may arise from the varying requirements of trade, from the sudden necessity of making foreign payments, or from political changes affecting other countries, ... 56
Circumstances under which such expansion and contraction is beneficial or otherwise, ... 57

The disadvantages of a metallic currency are remedied, in a great measure, by the institution of banks, . . 59
Advantage arising from the institution of banks, in addition to that of remedying the evils of a metallic circulation, 60
Banks are of two classes—banks of deposit and banks of issue, ... 61
Nature of a bank of deposit, ... ib.
The three disadvantages of a metallic circulation are remedied by a bank of deposit, ... ib.

LECTURE IV.

Page

The disadvantages of a metallic circulation are still further remedied by the institution of banks of issue, . . 64
Nature of a bank of issue, ... ib.
Sums for which notes are issued, ... 65
Small note circulation has been objected to for three reasons, ... ib.
Amount of the precious metals in circulation in England, ib.
Nature of the investments which should be made by a bank, ... 66
The discount of mercantile bills may be a preferable investment to the purchase of funded property, . . 67
Investments on the Scotch system of cash credits, . 68
An excess or deficiency in the issue of a convertible paper currency will affect the exchanges, and the efflux or influx of bullion, in the same way as though the currency were exclusively metallic, ... 69
The existence of a number of banks of issue necessarily leads to unsteadiness in the value of the standard, and to serious commercial revulsions, ... 70
A bank, although it does not augment its own issue, cannot escape uninjured when the circulation is unduly increased by other banks in the district, . . 72
Dr. Longfield's argument on this subject, . . 73
The course of trade has been said to revolve in a cycle, . 76
Commercial distress may arise from panic, . . ib.
Instance in October, 1847, ... 77
Other instances, ... 79
Mr. Huskisson's description of a commercial panic, . ib.
Different course to be adopted to stay a drain for gold arising from panic and one arising from adverse exchange, ... 80
Suffering occasioned by commercial revulsions, . . ib.
Test of the excellence of a system of convertible currency, 83

Page

System of regulating the issue by reference to the rate of interest, examined, ... 83
System of regulating the issue by the discretion of the State or other public bodies, examined, . . . 84
Scheme of the French assignats, . . ib.
Effect of the suspension of cash payments, from 1797 to 1819, on the issue, ... 86
Defect of all such systems, . . . 87

LECTURE V.

System of regulating the issue by the demand for discount of legitimate mercantile paper, examined, . . 90
This system does not possess the advantage which has been ascribed to it, that of adapting the issue to the wealth of the country, . . 91
Defect of this system, ... 92
This system errs in the importance which it attaches to the distinction between legitimate mercantile paper and accommodation bills, . 93
System of regulating the issue with reference to the population, examined, ... 95
System of regulating the issue by reference to the exchanges and the price of bullion, examined, . . . 96
1st. The Exchanges, ... ib.
Objection to this test examined, . . . 97
This test formally rejected by the Bank of England in 1819, ... 98
2nd. The price of bullion, ... ib.
This test likewise rejected by the Bank of England in 1810, ... 99
Nature of the control which a bank has over its issue, . 100
Whether the bank reduces its circulation by the sale of its funded or other property, or by limiting its discounts, the mercantile accommodation is equally restricted, ... ib.

Page

When a bank desires to limit its issues on mercantile bills, it may do so in several ways, . 101
It is important to a bank in time of pressure to have the currency of its bills short, for two reasons, ... ib.
System of regulating the issue by keeping the amount of the securities even, and allowing the circulation to be regulated by the action of the public, examined, . . ib.
Defect of this system, ... 102
Effect of the action of the public in demanding gold on the deposits of a bank, . . ib.

Leading provisions of the Banking Acts of 1844 and 1845, 105
Largest amount of circulation which can now subsist in the United Kingdom, not represented by the precious metals, ... 108
This amount why allowed, ... 109
Principle of the Act, ... ib.
Three important advantages secured by these Acts, . ib.
Reasons for separating the banking department from the department of issue, ... 110
The provision which fixes a proportion between the amount of issue on gold and that on silver, considered, . . 111

Objection to all attempts at regulating the currency, . 113
Effect of credit on prices, . . . ib.
Effect of bills of exchange on prices, . . 114
Sum which is represented by bills of exchange, . ib.
Extent to which bills of exchange form part of the active currency of the country, . . 115
Answer to this objection, ... 116
Lord Overstone's opinion on this subject, . 117

LECTURE I.

GENTLEMEN,—The subject of the currency is a highly important one, and as in all commercial countries it is closely connected with the banking system, if we would examine the one, it becomes necessary to give a good deal of consideration to the other. I propose, then, to ask your attention for a short course of lectures, to the leading principles of Currency and Banking. It will not be necessary for us, nor would it indeed be within our province to enter into a minute examination of the manner in which the business of a bank may be best conducted—with so much of the detail of its management, as affects merely the interests of its proprietors, we have little or no concern —we are only required to examine into the action of the banks, in so far as they affect the currency of the country; in this respect, they are institutions of great and public importance, they have been made the subject of legislative interference and control, and are fit subjects for our inquiry.

And here, at the outset, we may observe a marked distinction between the subject on which I now seek to engage your attention, and the other branches of political economy, which it was my duty to bring before you in the course of last term. I have said

that the banking system of these countries has been brought under the control of the legislature, and I think that I shall be able to satisfy you hereafter, that such interference is indispensably necessary. But in the subjects which we last investigated, we found that a different rule prevailed—in them we found that freedom of action was the main-spring of a nation's advancement; that the interference of Governments, whether by engaging in the work of production themselves, or by prescribing the course which their subjects should follow, has been one of the chief obstacles to its progress. Exceptions to this rule there no doubt may be—the subject on which we are now about to engage is one—exceptions which it would be difficult to reduce to any general law, and such as seldom can be avoided in the practical application of general principles, whether political or economical; they must be determined in each case with reference to the condition of the country, and their own peculiar circumstances. But subject to these, the great maxim for the guidance of all states in which the people are enlightened, should be to leave their industry free—free both from control and from assistance—to bear in mind that the national wealth is but the aggregate of that of individuals, and that individual self-interest will lead men to see what is for their interest more clearly, and to accomplish it more economically than Governments can possibly do: and that even though in some cases the state could interfere with advantage, yet that more would be lost by weakening the habit

of self-reliance—that invaluable quality, without which nothing great or good was ever yet accomplished—by teaching men to look to Government for aid, instead of relying on their own energies, and by lessening the enterprise and lowering the independence of the country, than could be gained by any immediate result that could be hoped to come of it.

The importance of the subject on which we are about to enter can hardly be over-estimated. By an ill-arranged currency, every effort of industry may be blighted. The man of business labours with skill in his peculiar calling; he believes himself to be prosperous and independent; but let a sudden and undue contraction of the currency set in, and forthwith he finds the value of his property sink, his correspondents become unable to fulfil their engagements, his securities can only be realised at a ruinous sacrifice, his liabilities cannot be provided for, and without having committed a single indiscretion, he is a broken man. The evil extends beyond the merchant or manufacturer, and presses with aggravated force on the workmen, artizans, and others who are embarked along with him. Nor is it limited to those who are engaged in trade. All classes of society are subject to similar misfortune, whensoever any marked fluctuations take place in the value of the currency. Let it, for instance, be unduly increased in quantity, and every one whose income is fixed, whether it be derived from land, or from the public funds, or from any other source, is seriously and irremediably injured. Even those to

whose services usage has prescribed a fixed remuneration, as professional men and such like, may be for some time, and to a certain extent affected. A change in the value of the currency, caused by the operation of principles which the sufferers cannot possibly control nor, in many cases, comprehend, lowers the condition of all such persons, and may limit to any degree, their command over the comforts and necessaries of life.

But in thus adverting to some of the evils which flow from an ill-regulated currency, I would not have you suppose that I am prepared to bring before you any system which shall be perfect. I know of none which must not in some degree be open to objection. But, surely, we are not to be deterred from our inquiries, merely because we cannot discover a system which shall be faultless. If there be but a choice of evils, it is something to know how to choose the least. It is no slight matter to get a clear insight into certain great errors which it is possible to avoid, and by fully understanding the dangers to which, even under the least faulty system, we are exposed, to be able, to some extent, to guard against their effects.

I must ask you to commence the examination of this subject with its simplest elements. This may be irksome to many of you who have already devoted some time to these inquiries, but I trust that this encroachment on your time will be pardoned for the sake of the accuracy which it insures; it is of great importance that the common principles which form the basis of

our reasoning should be fully established, and that the sense in which the several terms are used should be fixed.

A very little reflection will satisfy any of you that it would be impossible for the business of life to be carried on for a single day in any civilized community without the agency of some common medium of exchange, which every man would be willing to receive. To take the instance given by Adam Smith: the butcher wishes to sell his meat, and the brewer and baker wish to buy it; but if the latter have nothing but their beer and bread to give for it, and the butcher has already enough of these articles for his present supply, he neither can sell, nor can the others buy what they have need of. So soon, then, as the division of employments has been introduced, which is at a very early stage in the history of all societies, it becomes necessary that each person should have by him, or at his command, a supply of some commodity which men will be generally willing to receive in exchange for whatever they have to dispose of. Various commodities have been at different times selected for this purpose—cattle, salt, dried cod, red feathers, small shells, and other articles; but so many circumstances have combined to recommend the precious metals, that they were very early adopted in almost all countries, and still continue to be the common instrument by which exchanges are effected.

It was not, however, their utility as the common medium of exchange that first made gold and silver desirable to mankind. They were first sought for be-

cause of their beauty for purposes of ornament, and their general serviceableness in the manufacture of various articles of household use. We know, from the sacred Scriptures, and other ancient records, how largely the precious metals were used in this way; the Scandinavian tumuli of the most remote ages have been found to contain many weapons of war and implements of industry made of gold; and the discoverers of Mexico and Brazil found the people of the country using fishing-hooks of gold, and possessing ornaments and tools made of the same material.* The precious metals were thus first sought after from their capability of supplying some of the earlier and more urgent wants of mankind. But when men began to feel the necessity for a common instrument of exchange, they soon recognised a further utility in gold and silver. They then found that these metals possessed, in an eminent degree, the several qualities which fitted them for that purpose. They were more durable than any other article—they were more portable, as being less bulky in proportion to their weight—they were more readily divisible—when divided, the several parts were more homogeneous—and they were easily reunited by fusion. Further experience taught mankind that, in addition to these qualities, they possessed yet another, and for us a more important one, that, namely, of steadiness of value. It is this latter quality which chiefly recommends the precious metals to us at the present day. In the mo-

* Jacob on the Precious Metals.

netary systems of modern times, a substitute for the precious metals could be found, and could be adopted with advantage, were it not for its inferiority in this one particular of steadiness of value, in which quality no substitute has as yet been discovered that can be compared with them.

When we speak, however, of steadiness of value, you will recollect that, strictly speaking, no article can remain steady in value while other articles fluctuate with which it is compared. Value is nothing inherent in a commodity: it is no more than the relation in exchange which one article bears to another. It is, of course, impossible that any one commodity can remain steady in value with reference to two or more other commodities which fluctuate in their relative value with each other. If a pound of tea at one time exchanges for one pound of sugar, and at another time for two pounds of sugar, it is impossible that the same quantity of gold, silver, or any other commodity, should exchange for the same quantities of tea and sugar, at these two several periods. An article is said to be steady in value when what Mr. Senior terms its *intrinsic* causes of value remain constant; when, in other words, there is no change in the circumstances which occasion the demand for the article, and in those which limit its supply. Such an article will always exchange for the same quantity of any other commodity which has undergone no variation in the circumstances which affect its supply or the demand for it. If there be such variation, the

relative value of the two articles will, of course, be altered; but as, in a great number of commodities, these variations in the circumstances which affect the supply of one and the demand for it, will, in all probability, be compensated by variations in the opposite direction in the circumstances affecting the supply and demand of some other, the article whose *intrinsic* causes of value are undisturbed may be regarded as steady in value: "it may exchange for a greater or less quantity of different specific commodities, but it will in general command the same average quantity as before of the general mass of commodities; what it gains or loses in one direction being made up in another."* You will at once perceive the difference between such an article and one the supply of which is uncertain, or the demand for it irregular; for in this latter case, the article must constantly fluctuate in value with reference to all others, except those which chance to vary in the same direction and degree, and at the same time as it does itself.

Now the supply of the precious metals from the mines has been tolerably uniform. There have been certain marked periods, like that of the discovery of the mines in America, or, like the present time, when the supply of the precious metals has been suddenly and largely increased; but, taking a series of years, the supply of gold and silver will be found to have been more uniform, and the circumstances under which it has been produced to have been more constant, than that of any other

* Senior's Political Economy.

commodity: and the wide field over which they are distributed—being nothing less than the whole commercial world—serves to equalize the demand; for in so wide a field the falling off in the demand, in any one quarter, is almost certain of being compensated for by an increase in some other. Thus it is that the intrinsic causes of value of the precious metals are more steady than of any other commodities.

You will not fail to see how important it is that the medium of exchange should possess this quality of steadiness of value. Exchanges are not limited to those which can be effected at any one instant of time. Men often enter into contracts, the performance of which is, in a great measure postponed to a distant period. One man accepts a bill, which he undertakes to pay that day twelvemonths; another executes a deed, by which he binds himself to pay an annuity so long as another person shall live; a third becomes bound by lease to pay a stated rent for the term of nine hundred and ninety-nine years. Now in all such engagements it is plainly a matter of the first importance that the article which is contracted for, and which is to be paid at the end of the year, or from year to year, as the case may be, shall be one which will continue as steady in value as the nature of things allow of. For this, rents have sometimes been reserved in corn, or in cattle, wine, and such like; but all these articles are liable to be affected in value by the vicissitudes of the seasons; no man could tell, six months before the harvest, what his

income for the year might be. You cannot but see that it would be quite impossible to enter into any contracts the completion of which was postponed to a remote period, on any principles except those of the wildest speculation—nothing short of mere gambling—unless the article which men engaged to pay was one which remained steady in value. If it rises in value the creditor is benefited at the expense of the debtor; the converse takes place when it falls: in both cases the original intention of the contracting parties has been departed from: an advantage is gained, and an injury suffered, which neither of them had contemplated when they entered into the agreement.

Thus the first utility that mankind recognised in the precious metals was their serviceableness for ornaments, tools, weapons, household utensils, and such like. This it was that first gave rise to a demand for them, and first made them valuable. They were soon, however, found to possess those qualities of portability, durability, divisibility, homogeniety, and capability of being easily re-united, that recommended them beyond all other commodities as the common instrument of exchange. Still further experience showed that they possessed yet another recommendation; and that, although a substitute otherwise desirable might be now adopted, yet that in one particular—that of steadiness of value—no substitute has been discovered to compare with them. Hence it comes that they have been almost universally adopted as the medium of exchange, and men now sell what they have to dispose

of for gold and silver, because they constitute the established currency of the commercial world, and they do so without any immediate reference to the subordinate purposes of utility which the material of which that currency is composed may serve.

For a long time after the precious metals were adopted as the general medium of exchange, they were used in the form of ingots or bars, and were passed by weight from one person to another. The oldest commercial transaction on record, that of the purchase of the field of Macphelah by Abraham is thus described:—"And Abraham weighed to Ephron the silver, four hundred shekels of silver current money with the merchant." And such would seem to have been the practice amongst the Jews for at least twelve centuries: one of the latest of such transactions recorded in the old Testament being thus mentioned by Jeremiah:—"And I bought the field of Hanameel, mine uncle's son, and weighed him the money, even seventeen shekels of silver." At a very remote period, however, the practice of coining was introduced; its object being to obviate the necessity of weighing the precious metals, and the still more difficult process of assaying them, or testing their purity. The mere process of weighing such valuable articles must always require some skill and nicety, but the process of assaying them would be to the great majority of mankind an utter impossibility. Governments, therefore, have taken charge of the coinage in their respective countries; the ingot is divided into a number of pieces, and upon these pieces there is then

affixed a stamp, which attests the weight and fineness of the coin. Thus the ingots of gold are brought to the mint at London; their weight is generally about 15 lbs. each, but they range from that up to 25 lbs.: they are there made into coins, of which the standards of weight and of fineness are as follows:—

In weight, 934½ sov.=20 lbs. Troy, or 1 sov.=123·274 grs.

In fineness, 22 carats in 1 lb. Troy of fine gold to 2 carats of alloy—or $\frac{11}{12}$ fine $\frac{1}{12}$ alloy.

When gold was first coined in England, in the reign of Henry III., the standard of fineness was 23 carats, 3½ grs. fine, which standard was preserved to the reign of Henry VIII., who first introduced the standard now adopted. In the several coinages from the reign of that monarch to the reign of Charles II., the standard alternated from the old to the new; but from the reign of the latter sovereign it has not been departed from.

The silver ingot generally weighs about 60 lbs., and the standards of weight and fineness of the silver coins are as follows:—

In weight, 66 shillings=1 lb. Troy, or 1 shilling=87·27 grs.

In fineness, 11 oz. 2 dwts. in 1 lb. Troy of fine silver to 18 dwts. of alloy, or $\frac{37}{40}$ fine $\frac{3}{40}$ alloy.

The standard of fineness of our silver coinage has been preserved since the reign of Henry II. The standard of weight continued unaltered from the 43rd of Elizabeth to the 56th of George III., but in the century previous to the 43rd of Elizabeth, it fell one-third. The standard weight of the copper coinage is—

53,760 pennies=1 ton avoirdupois, or 1 penny = $\frac{2}{3}$ oz.

The alloy now used in our gold coinage is copper.

Such are the standards of weight and fineness of our coins.* There is, however, an unavoidable loss of weight by abrasion, especially when the coins are first issued from the mint. They are consequently allowed to circulate and pass as a legal tender, although they may be somewhat under the standard weight; thus a sovereign will pass current if it be not less than 122½ grains in weight, that is ·774 grain under the standard. If it be less than this, it ceases to be a legal tender, and may be refused, and if presented at the Bank of England, it will be clipped. If coins were allowed to circulate which were much under the standard, one consequence would be, that whenever there should be a demand for bullion, for export or for manufacture, all the heavy pieces would be melted down for these purposes, and the light gold left in circulation. This would take place because, as bullion, the heavy coins would be worth their weight, while for the purposes of currency they would be worth no more than the light pieces. Thus the difficulty of reforming a metallic currency, when it had become worn, would be much greater but for this rule, inasmuch as that the new pieces of full weight, freshly issued, would be constantly disappearing from the circulation. The evil would be a constant and an increasing one. Other results would follow, which we will have occasion to notice when we come to speak of the exchanges.

According to these standards, the proportional value

* Report of Committee of the Mint, Commons, 1837.—Annals of the Coinage, by the Rev. Rogers Ruding.

of gold to silver, by our mint regulations, is about 15 to 1—an ounce of gold being coined into £3 17*s.* 10½*d.*, and $15\frac{9}{124}$ oz. of silver being coined into the same sum. Other countries have in like manner established standards both of weight and purity for their coins—standards which are now rarely departed from, although formerly it was no unfrequent practice to reduce the standard of weight, and in some countries even the standard of fineness, in order to enable the state the more readily to meet the claims of the public creditor. It is by a comparison of the standards of different countries that we are enabled to ascertain their par of exchange.

The par of exchange between two countries is the expression in the currency of one country of that sum which contains an equal amount of pure gold or silver with a given sum which is taken as the standard of comparison in the other. If silver were the established currency of England, the par of exchange between England and France might be regarded as fixed, and would be said to be 25 fr. 22 c., because 25 francs 22 centimes of French money contain the same quantity of pure silver as our 20 shillings, which would be taken as the standard of comparison. So also the par of exchange between Holland and England would be considered as fixed at about 11 florins, because 11 florins contain the same amount of pure silver as 20 shillings.

The par of exchange, however, between a country which, like England, has adopted gold for its standard, and another country which has adopted silver cannot

be calculated at any particular time, without taking into account the relative value of the two metals at that period. We may ascertain the sum of the foreign currency, which will contain the same amount of pure silver as 20 shillings, and if the quantity of pure silver which is contained in 20 shillings were always equal in value to a sovereign, the par would at once be ascertained; but as the quantity of pure silver contained in 20 shillings may rise to be worth more, or fall to be worth less than a sovereign, the par between two such countries cannot be regarded as fixed, but must fluctuate according to the relative value of gold and silver.

As the coinage then adds so much to the efficiency of the precious metals for the purposes of currency, by dividing them into uniform and convenient pieces, and attesting the weight and purity of each, the same quantity of bullion in coin would naturally be more valuable; that is, men would give a greater quantity of any other article for it, than for the same amount of bullion uncoined. There can be no doubt but that this would be the case as regards the internal trade of the country: in our foreign trade it might be otherwise, ingots are not unfrequently preferred to coin, for the purposes of export, because coin requires to be counted, and false pieces may be introduced; the foreigner, moreover, frequently desires to assay the gold again for himself, so that he gains no advantage by the assay of our coinage.* There can be no doubt,

* Committee on the Mint. Commons, 1837.

however, but that for all purposes of home trade, coined gold would naturally be more valuable than the same weight of gold uncoined. This difference in value of gold coin and bullion cannot, however, occur in this country, because of the regulations of the English mint. Every person who brings gold to the mint is entitled by law to have it converted into coin free of any charge. Usage has established a few trifling fees to the Queen's Assayer and some other, but they are too inconsiderable to be worth taking into account. Under this regulation of the mint, and subject to the slight qualification which I will mention presently, gold coin can never be worth more than an equal weight of gold bullion, because the instant it became ever so little more valuable than its own weight in bullion, forthwith the holder of the bullion, instead of giving it for less than its weight in coin, would send it to the mint, and there have it converted into coin for himself. And of course gold coin can never be worth less than its weight in bullion; for it can at once be melted down and converted into it; so that if a demand for bullion should arise, either for export or for any other purpose, such as would otherwise lead men to give more for a certain weight of uncoined bullion than its weight of coined gold, the latter would at once be put into the crucible and converted into the former. Thus equal quantities of gold coin and gold bullion must exchange for each other, and be of equal value so long as either can be converted into the other free of cost; or as the proposition is more frequently expressed, the market

price of gold must conform to the mint price; that is, gold must always sell for £3 17*s.* 10½*d.* an ounce in the market, so long as an ounce of gold when brought to the mint is coined into that sum without deduction or charge.

I have stated this proposition as to the conformity of the market price and the mint price of gold without any qualification; there is, however, always, in fact, a trifling variance which remains to be accounted for. There is a delay in the coinage which is equivalent to a charge, as our mint does not keep any stock of coin on hands, as is the practice in other mints, in that I believe of the United States, for example.* This delay in the coinage may be said to amount to the space of a fortnight, or more, according to circumstances, as the machinery of the mint cannot be set to work with a less amount than ten thousand pounds. Moreover, the mint will not receive any bullion until it has been melted by a particular melter, in whose skill and carefulness they can repose confidence; for gold, if improperly melted, may be better in one end of the bar than the other; it is liable, also, to retain portions of lead and antimony, which render it brittle and liable to break in the stamping. There is a small charge for this melting, and there are, besides, some trifling fees established by usage in the office, which, coupled with the delay of some weeks that is really a matter of importance,

* Report of Committee on the Mint.—Commons, 1837.

make it a thing of comparatively rare occurrence for a merchant to send his bullion direct to the mint, although he has the power of doing so; and the manner by which, in point of fact, he disposes of it, is, by selling it to the Bank of England, who were always willing to buy, and as we shall see hereafter, are now compelled to buy at the rate of £3 17*s.* 9*d.* an ounce. The Bank gets the bullion coined as occasion may require; and the merchant is willing to pay the difference of 1½*d.* an ounce, or one-sixth per cent., in lieu of the delay at the mint. This delay, then, has caused a permanent depression to this extent of the market price under the mint price of gold.

On the other hand, causes have from time to time been in operation which raised the market price above the mint price; but these causes were to be found under different regulations of our currency to those which now exist. There was, first, the laws prohibiting the exportation of our gold coin. It was only in the year 1819 that these laws were repealed; prior to that period not only could no coin be exported, but neither could bullion be exported, unless an oath were taken that it had not been melted down from coin: thus the check which now prevents the market price of gold bullion from rising above the mint price—namely, the facility of melting down the coin, could not legally exist. The quantity of gold bullion which could be sworn off for exportation was comparatively limited in amount; and if a large demand set in for the purpose of making remit-

tances to the armies abroad, or for any other purpose, men would give much more than an equal weight of the coin of the realm to obtain it. It appears from the Report of the Bullion Committee of 1810, that the difference between the value of the bullion which could be then sworn off for exportation, and that of the bullion produced from coin which by law was only applicable to internal purposes, was between 3*s.* and 4*s.* per ounce. A second cause of the excess of the market price over the mint price of gold, was the deterioration of the coinage by loss of weight. Prior to the reformation of the gold coin in 1773, for example, this degradation of the coinage amounted to from two to three per cent. When the currency is so degraded, the market price must exceed the mint price. The mint price is £3 17*s.* 10½*d.* an ounce; if the gold currency which makes up £3 17*s.* 10½*d.* comes to weigh less than an ounce—if, when converted into bullion in the crucible, this sum would not yield this weight, whosoever wishes to buy an ounce of gold bullion must give so much more for it as will make up a sum equal in weight to the bullion he desires to purchase. Such a state of things could not now occur, because, as we have already seen, a sovereign ceases to be a legal tender if it be less than 122½ grains in weight, and when presented at the Bank of England it will be clipped. A third cause of the excess of the market price over the mint price of gold, was the over-issue by the banks of inconvertible paper during the period of the restric-

tion on cash payments, from 1797 to 1819. The Bank of England was then discharged from the liability of paying its notes in gold; and, after some time, it and the numerous country banks proceeded to issue so largely, and to increase the amount of the currency to such an extent, that the prices of every thing rose, and of course the price of gold bullion rose along with the rest. There was no possibility of a circulation of this character—paper, not convertible into gold—being relieved of its excess by exportation, for abroad it was valueless; and we consequently find, from the Report of the Bullion Committee, that in 1809 the market price of bullion fluctuated from £4 9*s.* to £4 12*s.* At £4 10*s.* it would be about 15½ per cent. above the mint price.

Thus, from examining the circumstances under which the market price of gold has from time to time varied from its mint price, we find that three of them could not exist under the present regulations of our currency—that the influence of the remaining one is so slight as to be, for all practical purposes, immaterial, and so uniform as not to be likely to lead us into any misapprehension; and that we may therefore take the proposition to be true, that the market price of gold cannot now vary from its mint price.

There may be, however, an exception to this rule in one instance; namely, when the Bank comes into the market with its notes to purchase bullion: it might be asked to pay a higher rate than the mint price, and

might be obliged to do so, as it could not adopt the alternative, which is open to every other purchaser, of converting its coin into bullion, its object being to add to its stock. Such a state of things has, from time to time, occurred: during the commercial pressure of 1795, the directors of the Bank stated to Mr. Pitt that they were obliged to pay as high as £4 4*s.* per ounce for gold;* and again, in 1826, the Bank paid for gold which they purchased from the Messrs. Rothschild as much as £100,000 more than they should have done if they could have bought it at the mint price.† But we will hereafter see that this mode of supplying its coffers, except in cases of extraordinary emergency, is as unnecessary as it is impolitic; that the extra sum which is thus paid for the bullion adds so much more to the amount of its issues, and increases by so much the demand for gold; that with a well-regulated currency, the coffers of the Bank will be supplied by the public at the mint price; that this may sometimes be done without its becoming necessary for the Bank to take any action in the matter; and that, when it is obliged to intervene, its course is simply to diminish its issues; that, by thus raising the value of the circulation, gold will flow back again to the country, and, as of course, find its way into the coffers of the Bank.

But although it be true that, under our present

* Observations on the Course of Exchange. By William Blake, F.R.S. 1810.

† Report on Bank of England Charter. 1832.

system of currency, the market price and the mint price of gold bullion must coincide, the rule does not extend to silver; for the regulations of our mint, as to the coinage of gold and silver, differ in two important particulars:—the first is, that the mint is not open to every person at all times for the coinage of silver bullion, the silver and copper which is coined being exclusively on account of Government; the second is, that there is a seignorage charged on the coinage of silver (as there is also on copper). For the coinage of gold the mint makes no charge, the expense, which amounts to about $\frac{1}{2}$ per cent., is voted annually by Parliament; but on the coinage both of silver and copper there is a duty imposed, which is not merely sufficient to defray the expense of the coinage, but which also leaves a considerable portion applicable to the purposes of the general revenue. This duty on the coinage is termed a seignorage.

Now, of the two particulars in which the coinage of silver differs from that of gold, it is obvious that the first which I have mentioned would be of itself quite sufficient to account for the market price of silver bullion varying from its mint price. It is discretionary with the sovereign, with the advice of the Privy Council, to issue a proclamation for the coinage of silver whenever it may seem fitting; and if the silver circulation should be allowed to become very much deficient, the silver currency might rise considerably in value above the same weight of silver bullion, or in other words, a man would give more than an equal weight of silver in bullion to

obtain silver in coin. The same result, that of raising the value of the currency above that of the bullion of which it is composed, is effected by a seignorage.

A seignorage consists in the difference between the market price of bullion, and the rate at which it is coined and made current. Thus silver bullion ordinarily sells in the market at the rate of 62*s.* per lb. Troy, but a pound of silver bullion is coined into 66*s.*; the difference of 4*s.* is retained at the mint to defray the expense of coinage, the balance after payment of such expense, is carried to the consolidated fund: this difference, then, constitutes a seignorage of about six per cent. The natural effect of a seignorage (supposing the mint to be open to every importer) is to lessen the amount of the currency, and consequently to raise its value. It does so by making it unprofitable to send bullion to the mint, until the demand for currency raises its value so high that in order to obtain it, men are willing to pay the amount of the seignorage in addition to the expenses attendant on the importation of the bullion. As the coin thus becomes more valuable than the same weight in bullion, its exportation is to a great degree prevented: abroad it is worth only its price as bullion; at home it is worth so much more as coin. Thus we find that the silver coin is never exported from England: and consequently, although the countries of Europe derive their supply of silver bullion chiefly from England, they never draw forth any portion of its silver coin. On one occasion, in the year 1832, the Bank of Eng-

land found it necessary to melt down and export a large quantity of silver coin to France, but they sustained a loss on the transaction of between £60,000 and £70,000.*

If a seignorage be limited to the cost of the coinage (which at our mint is ½ per cent. for gold, and 2⅛ per cent. for silver), its imposition would seem to be a matter of small importance. But if it be much higher than this, it tends to some extent to encourage the forgery of the coin of the realm; and besides, it may, as we have seen, impede or limit the exportation of the precious metals on many occasions when such exportation would be desirable, and when the banks may be insufficiently supplied with bullion or foreign coin that would be available for that purpose, and thereby be productive of injury, as we will understand hereafter. The seignorage, however, which is charged on the silver coinage in this country, although it is high, is yet practically of very little consequence, for gold may be regarded as our sole standard, silver not being a legal tender for any amount over forty shillings. The silver and copper coinage are, in fact, used by us merely as a subordinate currency for the purpose of effecting the smaller exchanges of the country, and in order to avoid the inconvenience of coining such very small pieces in gold as the twentieth, or fortieth, or two hundred and fortieth part of a sovereign.

* Report on Commercial Distress.—Lords, 1848.

LECTURE II.

GENTLEMEN,—I have mentioned to you that the relative value of gold and silver, according to our mint regulations, is about 15 to 1. But let the relative value of the precious metals be ever so accurately ascertained at the time when the mint regulation is made, it is quite impossible to secure the continuance of the same relative value for any length of time. An increase in the supply of either of the precious metals, by the discovery of new mines, or a falling off in such supply; or an increase in the demand for either, as for purposes of manufacture, or to supply the increasing wants of the currency of the commercial world, may materially alter the value which they formerly bore one to the other. This impossibility of maintaining any fixed proportion in the relative value of gold and silver bullion for any length of time, leads us to consider the question of a double standard; that is, the making both gold and silver a legal tender for any amount.

The consequence of such an arrangement would be, that whichever of the precious metals came in time to

bear a lower value to the other, than that which was originally fixed at the mint, would entirely supplant that other in the circulation of the country. Though gold and silver were equally a legal tender to any amount, either might thus be driven out of circulation, and the currency be practically restricted to the other. If the supply of silver bullion were suddenly increased, so much so that 20 ounces, instead of 15 ounces, the present mint proportion, would exchange for an ounce of gold; if it could be coined freely, and were a legal tender to any amount, every man would pay in silver; there would be an obvious loss sustained by making any payment in gold, for an ounce of gold when coined would pay but £3 17*s.* 10½*d.*, but it would purchase 20 ounces of silver, 15 of which could be coined into £3 17*s.* 10½*d.*, and pay the same amount of debt as the gold, leaving five ounces of silver as profit on the transaction. Such a state of things, however, could not exist for any time; gold bullion would cease to be coined; the gold coin already in circulation would be melted down and exported, or used in manufacture, and its place in the currency would be supplied by silver. Thus the standard of the currency would, in this case, be lowered to the level of the precious metal which had fallen in value, the debtor portion of the country would be benefited at the expense of the creditors, and the great object of steadiness of value would be lost. If, on the other hand, the alteration in the relative value of the precious metals were occasioned, not by a fall in the

general value of silver, as in the instance we have just taken, but by a rise in the general value of gold; suppose its supply to be greatly diminished; the effect of the double standard would be to correct the evil which would ensue if the standard were composed exclusively of gold—the evil of a currency unduly raised in value—to prevent the debtor portion of the community from being injured for the benefit of their creditors, and to preserve the steadiness in value of the circulating medium. It would have this effect; because the metal, which becomes lower in relative value to the other than the mint proportion, must supplant that other in the currency of the country; and this, whether the departure from the mint proportion be occasioned by a fall in the general value of the one, or by a rise in the general value of the other; whether the intrinsic causes of value of the one be lowered, or the intrinsic causes of value of the other be raised. Consequently, if the general value of silver remained unaltered, while that of gold had risen, the double standard would have the effect of maintaining that steadiness of value which is the great requisite of the circulating medium.

Thus with a single standard, the currency is exposed to a two-fold evil, either by the rise or the fall in its general value. With a double standard, the result would be the same, if we could suppose the likelihood of the two metals rising and falling in their general value equally and simultaneously. With a double standard, however, there is a two-fold chance of

injury, as either of the metals may fall in its general value; but on the other hand, the evil to which a single standard is liable, by a rise in its general value, is guarded against. If it were possible to predict that either of the metals must rise a double standard would be preferable; if we could say that either must fall, we should have a chance less of being injured by having a single; but if we knew one metal to be much more likely to remain steady in its general value than another, a single standard, consisting of that metal, should be adopted.

Mr. M'Culloch, in a note to his edition of "Adam Smith's Wealth of Nations," gives two very remarkable instances of the consequences of a discrepancy between the relative value of gold and silver, as struck by the mint, and the relative value which they bear to each other in the market. In the year 1717, the value of the guinea was fixed at twenty-one shillings, and both silver and gold were a legal tender to any amount, and so continued down to the year 1774; but during this period, payments came generally to be made in gold, because it was over-valued in the mint regulation of 1717, and the silver coins of full weight were exported from the country, leaving only those that were degraded by wear or by clipping, to discharge the duties of the subordinate circulation. In France, previous to the re-coinage of 1785, the louis-d'or was rated only at 24 livres 10 sols, when it was really worth 25 livres 10 sols. The consequence was, that gold was nearly driven out of circulation, and silver

became the only metallic currency used in France. In our present mint proportion, gold likewise is undervalued, but a similar result does not occur, because of our present law, that silver shall not be a legal tender for any sum above forty shillings; gold, therefore, cannot be dispensed with.

When a circulating medium is established in a country, every man's power of purchasing in the market depends upon the amount of that circulating medium which he can command. The greater, consequently, the amount of the currency, the higher prices will rise—the more money men have, the more they will be able and willing to give for the various commodities which they wish to purchase; and, although few men would pay high for an article merely because they have much money at command, still where many persons are possessed of a large amount of currency, their mutual competition for the articles which they want to buy must raise the price to a higher level than it could possibly reach to if they had less money amongst them. If every man in the country found his money suddenly increased in any given proportion, say that it was doubled or trebled, the condition of the community would be in no respect bettered. There would be a general rise of prices; men would be obliged to give two pounds or three pounds for that which had previously cost but one; they should carry double or treble the weight of money about with them to effect the same purchases; but no one would have a greater command

than he had formerly had over the comforts or necessaries of life. Upon previously existing contracts of every kind—the public debt, leases, annuities, bills of exchange, book debts, and such like—it would, of course, exercise a very serious influence. The debtor would pay, and the creditor would receive, the same sum of money as they had formerly contracted for; but the debtor would discharge his obligation with much less difficulty than he had calculated upon, and the creditor would find that the money which he received would procure for him a much less amount of commodities or of services, than the same sum had previously done. The increased currency might, no doubt, in so far as it was exportable, be sent abroad, for the purchase of a greater quantity than formerly of foreign products; or, if it were of a nature to admit of it, it might be melted down, and converted into some articles of ornament or utility at home, and in this way it might be made conducive to the welfare of the community; but whilst it continued in its form as currency, and circulating at home, no human being except those who already owed money, would be benefited, and the benefit to such persons would be met by a corresponding loss to their creditors.

Let me, however, guard you against supposing that the value of money depends solely on its amount, as compared with the quantity of products in the country. And when I speak of the "products" of a country, you understand me to mean not merely those which are material, but to include, also, those which are imma-

terial, or, as they are termed by Mr. Senior, "services:" such as are rendered by professional men—clergymen, barristers, physicians, and such others; and by private and public servants; by judges, military and naval men, customs and excise officers, and such like. It is by no means the case, that if the quantity of products remain the same, the value of the currency will vary inversely with its amount. The amount of the currency might be increased or diminished one-half, without raising or lowering prices in any thing like the same proportion. Its value is affected not only by its amount, but also by the different degrees of rapidity with which it circulates at different times. It was long since observed by Mr. Locke,* and is sufficiently obvious, that the same shilling may at one time pay twenty men in twenty days, and at another time rest in one man's hands for a hundred days together. To adopt the expression given by Mr. Mill, "The amount of goods and of transactions being the same, the value of money is inversely as its quantity multiplied by the rapidity of circulation." The rapidity of circulation will depend upon the state of public credit, upon the state of commercial credit, upon the industrial activity, and upon the habits of speculation of the community.

So far, indeed, is it from being true, that an alteration in the general level of prices is occasioned solely by an alteration in the amount of circulation, that it will be found, on examination, that the former

* Considerations on Lowering the Rate of Interest.

has in many instances preceded the latter. "In nearly all cases of important alterations of prices," says Mr. Tooke,* "the alteration in price has preceded the alteration in the amount of the circulation; and, therefore, you cannot connect them in the way supposed." The increase of price under such circumstances, is occasioned partly by the greater rapidity of circulation, partly by the more extended use of credit, and partly by the increased quantity of bills of exchange. When general confidence exists, and credit increases, a spirit of speculation and competition is very likely to set in; men then willingly offer higher prices than they have the present means of paying; the holders of merchandise, in order to avail themselves of the prices which are thus offered, consent to receive payment at some period more or less remote; and at the same time the circulation of the country passes with greater rapidity from hand to hand in making ready money purchases, and is increased by the additional quantity of bills of exchange, a subject to which we will hereafter advert. But when the period of repayment arrives, the strain on the currency may be greater than by any rapidity of circulation it may be enabled to meet, and in such case, if it does not receive an augmentation, men will fail in their engagements, confidence will be shaken, credit restricted, and prices fall. We will have occasion to examine fully into this subject hereafter, when

* Report on Commercial Distress.—Commons, 1848.

we come to inquire into the causes and effects of commercial revulsions. I have alluded to it now merely for the purpose of directing your attention to the fact, that prices may be raised without any increase of the currency of the country, and also to the agencies by which this is brought about: those agencies being the extension of credit, the increase of the bills of exchange, and the greater rapidity with which money circulates at one time than another.

We have seen that when the currency has attained to a certain amount, any further addition to it is of no service whatsoever to the country. Two questions, then, naturally suggest themselves—first, what is that amount? and, secondly, what proportion should it bear to the wealth or to the traffic of the country? In other words: suppose that the State had the sole power of issuing and controlling the currency, and that the country were so entirely disconnected with all others, that its circulating medium could be in no respect affected by any of their interests, whether commercial or otherwise; by what test should it be guided in the regulation of such a currency? In a country like England, one thousand sovereigns would be of no use whatsoever, neither would two thousand: where, then, in the course of the issue, would the point be reached, beyond which any further augmentation would prove unprofitable? and what proportion would the currency, when it had reached this level, bear, either to the products of the country, or to the exchanges which it was to be the means of effecting,

or to any other quantity with which it should correspond?

The answer to the first of these questions is sufficiently plain: as the great purpose of the circulation is to obviate the necessity of barter, it never could be sufficient so long as any two persons who were willing and able to effect an exchange with each other could not command an equivalent to the subject of the exchange in the currency of the country. If money were so scarce that one pound were worth ten pair of shoes, and there were no lower denomination of coin, the man who wanted only one pair, and who was able to pay for them by the produce of his industry, would yet be obliged to resort to barter to obtain them. Under these circumstances the State would be obliged (in the case we supposed of its having uncontrolled command of the circulation), to issue a greater number of pounds. This course, however, it could only safely adopt at the first introduction of a circulating medium; such a proceeding, after the currency had been once established, would probably occasion an undue depreciation. It would do so, unless the requirements of the country for a circulating medium had suddenly and greatly increased—unless, in fact, the circulation had greatly risen in value, and needed an extensive issue to restore it to its former level. But in all likelihood the more prudent course to pursue would be to issue sub-denominations of the currency of lesser value than the pieces formerly in circulation. This would accomplish the

same end—that of supplying the deficiency, and it would do so with a much less addition to the circulation of the country.

The second question, however, is one of very great difficulty. In one of the ablest documents that ever appeared on the subject of the currency, namely, the Report of the Bullion Committee of 1810, drawn up by Mr. Francis Horner, the difficulty seems to be fully acknowledged :—"The most detailed knowledge," says the report, "of the actual trade of the country, combined with the most profound science in all the principles of money and circulation, would not enable any man, or set of men, to adjust, and keep always adjusted, the right proportion of circulating medium in a country to the wants of trade." Again, Mr. Locke says, that "the proportion which money should bear to trade is hard to determine, because it depends not barely on the quantity of money, but on the quickness of its circulation."* He then goes into some reasoning on the subject, in which I think you would hardly acquiesce, but with which I do not now mean to trouble you, and arrives at this conclusion, that "it can hardly be thought that less than one-fiftieth part of the labourers' wages (they being paid weekly), one-fourth part of the landlord's yearly revenue (rent being paid quarterly), and one-twentieth part of the broker's yearly returns in ready money, will be enough to drive the trade of the country."

I have called your attention to this question, how-

* Considerations on Lowering the Rate of Interest.

ever, because it is one which naturally presents itself, not that I can hope to remove its difficulty. I acknowledge that I am quite unable to do so. Various practical rules have been from time to time adopted or suggested, which we will hereafter examine—as, that the currency should be regulated by the rate of interest—by the demand for discount of good mercantile bills—by the amount of the population—by the exchanges—by the price of bullion—or that, adopting the circulating medium of the whole commercial world, we should allow it to be regulated by the mere action of the public, to flow in or out according to the demand for it in this and all other countries. Still, however, the difficulty remains of laying down any general rule as to the proportion which the amount of the currency should bear to the wealth or to the trade of a country, so as to insure its being sufficient, and not more than sufficient, for the requirements of the people. The difficulty, however, would seem to be rather of a speculative than of a practical character, for, even though we could ascertain what the proportion should be, it seems little likely that we could devise any mode of maintaining it.

As the range of prices, then, in any given country, depends on the proportion which its circulation bears to its traffic, if we find the general level of prices to be much higher in some countries than it is in others; if it be higher in England, for instance, than it is in Norway, Sweden, Hungary, Turkey, and other parts of Europe, we naturally arrive at the conclusion that the

circulation of England must bear a higher proportion to the business it has to discharge than is the case in those other countries. This, no doubt, is in a great measure to be accounted for by the extent to which bills of exchange enter into and augment the English circulation, a subject to which we alluded before, and which we will have occasion to examine into hereafter. But leaving this, as well as differences in the rapidity of circulation, which can readily be allowed for, for the present out of consideration, and taking the case simply of a metallic currency, the great difference which is to be found in the general range of prices in different countries, is no doubt in a great measure to be ascribed to the inequality in the distribution of the precious metals.

That there is this difference in the general scale of prices in different countries is a matter of observation, and can hardly be questioned. The statement does not, of course, apply to articles which are the subject of export from any given country. If trade be not embarrassed by duties—if it be in all respects free—the only difference in the price of exported commodities in the country in which they are produced and in any other to which they may come, will be that of the profits of the merchant, with freight, insurance, and some other charges. But there is a great variety of products in every country which do not enter into its export trade; because, for the reasons which we examined in our lectures on commerce, the amount of capital in the country which is applicable to that trade,

can be more profitably employed in the production of other commodities; there is, besides, a large proportion of every man's income expended on subjects which do not admit of exportation, as house-rent, many articles of diet, attendance, and various other matters. Of all these the prices vary considerably in different countries, and the general level of price is much higher in some than it is in others. The causes of this will appear by referring to the mode in which the precious metals are distributed over the commercial world.

All nations must obtain their supply of these metals either directly or indirectly. If a country possesses mines, it will obtain its supply directly, by working the mines; and the more skilfully the mining operations are carried on, and the greater the amount of capital and labour which is applied to this pursuit, the greater will be the quantity of gold and silver which will be procured. If a country does not possess mines, the precious metals, like every other foreign commodity, must be obtained indirectly through the medium of its foreign trade; and the more skilfully the operations of foreign trade are carried on, and the greater the amount of capital and labour which is applied to the production of articles for export, the more of the precious metals will such a country be able to procure. If a country had no mines, and could produce no article which the foreigners would purchase, such a country could have no gold or silver; neither could it have tea or spices, or any foreign commodity; and the greater the value of its exports, the greater

will be the amount of foreign commodities which it will procure; but whether it will take gold, or silver, or cotton, or spices, or any other article, depends altogether upon which of them it most desires. You will not understand that it is necessary to send directly to the country where the precious metals are raised from the mines in order to procure them; they are widely dispersed all over the commercial world, and will be obtained from that country in which they are found cheapest and most accessible; England happens at present to derive her supply of silver chiefly from the mining countries of South America, but until the recent discoveries in California and Australia, she got her gold from Hamburgh, and from Paris, as well as from Russia.

In all countries, then, which do not possess mines, but which have a metallic circulation, the general range of prices will depend, first on the value of its exports, and, secondly, on the amount of those exports which it applies to the purchasing of gold and silver: just as, in those countries which do possess mines, the general range of prices will depend, first, on the quantity of the precious metals raised from the mines, and, secondly, on the quantity which is kept at home for the purposes of currency, instead of being sent abroad for the purchase of foreign products. If we find that the level of prices is permanently higher in one country than it is in many others, we come to the conclusion that the amount of currency in that country bears a higher proportion to the business it

has to perform than it does elsewhere; and this difference in proportion between the amount of currency and of traffic in different countries may exist even in the case of which alone we are now speaking—that of a purely metallic circulation. The fact is to be accounted for by the circumstance that such country applies a larger amount to the purchasing of the precious metals; first, because it is enabled to do so by reason of its greater export trade; and, secondly, because various circumstances, to which we will refer, incline it to do so.

Take, for example, the case of two countries in every respect similar—neither of them having mines, and neither of them as yet having any foreign trade or any metallic circulation; and suppose the amount of products, annually produced and consumed at home in each, to be of the value of ten millions. Let one of them, because of the invention of some mechanical contrivance for assisting labour, or the recent discovery of some natural advantages previously unknown, or any other cause, become enabled to produce an additional supply of goods for export worth ten millions more; and let the other become enabled to produce an additional supply of goods for export worth only one million more; and suppose each of them desires to introduce a metallic circulation: it is plain that the former country could now purchase ten times as much gold as the latter, and in one year could have ten times the amount of circulating medium. If it chose to expend five millions

of this gold on the purchase of foreign articles, it would yet have five millions to circulate fifteen millions' worth of value, while the other could have at most but one million to circulate ten millions' worth of value. Prices would be higher in the former country than in the latter. To make the proportions between the currencies and the amount of the commodities equal, the former should spend eight millions on foreign articles, and only two on gold; while the latter imported, for its one million of foreign export, no commodity but gold. But it is in the highest degree improbable that the country with so much larger an export should apply so small a proportion of it to procuring its circulating medium, and that, at the same time, the country with the smaller export should devote the whole of its purchasing power to this purpose. Every country will apply its exports to purchasing what it stands most in need of. The more urgent wants will first be satisfied. A country, the entire amount of whose exports could do no more than supply it with the necessaries of life, would bring in no gold or silver. So if habit had made the use of certain foreign products almost indispensable, as it may be said to have made the use of tea and sugar with a great proportion of the people of these countries, a great amount of exported articles would be applied to procuring such products, in preference to others which were less urgently needed. After such foreign articles as ministered to the necessities and comforts of life had been supplied, others would come to be demanded,

according as custom, or fashion, or whim had made them desirable. But amongst those demands of different degrees of intensity, that for the precious metals occupies a very high place. The demand for such a supply as will obviate the necessity for barter, may be said to rank in degree next only to the necessaries of life; and even after this requirement has been satisfied, the desire to obtain a still greater supply is as real, as active, and as intense as that for many other articles. True it may be that such increased supply is of no use to the community in the aggregate, but individuals do not reason so; each man knows that to him at least it is of great service to have the command of a large amount of the general medium of exchange. This desire for money would be likely to be stronger among a busy restless people than among a calm and contented race; it would be influenced by various circumstances, but its effect would be to bring an increased supply of the precious metals into the country, and to cause prices to rise to a higher level. This higher level is, as we have seen, of no advantage to any member of the community, while he remains in the country. If his income be raised, so is his expenditure. It rather causes inconvenience to the individual and loss to the entire nation. But the case is very different when he goes abroad; it is then of great advantage to him that the money value of his income is high; it gives him so much a greater command of money to spend in other lands; and if he selects a country in which the range of prices is

low, it enables him to live luxuriously on an income which at home might have proved insufficient. This he owes to the energy and skill with which the foreign trade of his country had previously been plied; and to the tastes, or even the caprices, of his countrymen.*

Thus it is that the general level of prices in a country is established, and it is with reference to this level that money is said to rise or to fall in value. When the general range of prices rises above this ordinary level, money is cheap; when it falls below it, it is dear. In the former case, the precious metals flow out from the country, in the latter, they flow into it from other lands, and so either relieve or replenish the circulation as it may need, tending in this way to preserve the general level of prices, and to maintain the all important quality of a standard, that of steadiness of value.

This efflux and influx of bullion is practically effected through the medium of the Exchanges, of which we will presently come to speak. But you can readily understand the action of prices on the transit of the precious metals from one country to another without adverting to the process by which it is actually brought about. Suppose, for the sake of illustration, that the

* I have ventured here to differ somewhat from the reasoning of Mr. Senior, who ascribes the difference in money wages in different countries to the circumstance of labour in one country being more productive of exportable commodities than another, and to nothing more.—*Lectures on the Cost of obtaining Money.* London, 1830.

foreign commerce, both of England and France, consisted mainly in their traffic with each other; if from any circumstance the value of gold were to rise considerably in France, say by reason of her productive powers having become so much more effective as to enable her to produce a much greater number of articles in some principal branches of trade than formerly, and let us take it that those articles are adapted exclusively to home consumption: prices in France would fall; the price of English goods in France would of course fall in like manner; and England would thus obtain a much less amount of the precious metals than formerly for an equal quantity of exported goods. Her power of procuring gold from France would be suddenly lessened, and at the same time her power of purchasing French products with gold would be greatly increased. Every merchant would feel this and would adapt his course of dealing to meet the altered state of circumstances. If he exported merchandise for gold he would lose, for he would not get the price for his goods in France which they cost him at home, where money was comparatively more abundant:—if he exported gold for merchandise, he would make large profits, for he would sell the French articles in England for more money than he sent to France to purchase them. Thus the gold of England would flow into France, gradually lowering the value of money there by replenishing her circulation, tending to restore her level of prices, and to sustain the value of her standard; and it would continue so to flow until,

from its increasing scarcity at home, men would prefer it to the French products, and would not pay such a price for the latter as would leave a profit to the merchant who imported them. At this point prices which, during the transit of the precious metals, had been rising in France and falling in England, would become stationary; the efflux of gold would then cease, and the commerce between the two countries would be carried on as previously by the interchange of commodities. Some of the money of England would have passed into the currency of France, and the value of her standard would be in a great measure restored, though not wholly so, for a new level of prices would be established in both countries, a level of prices which would be somewhat lower in each than the former one had been. If we suppose the increased productiveness of France to have taken place in the production of articles which were adapted to foreign export, she might exercise this greater purchasing power either in procuring English gold, or English commodities. In all likelihood she would take some of each, importing that which she most needed, and to the extent she desired, being influenced by such circumstances as I have previously referred to. But this case we need not dwell upon, as my object was merely to point out the action of prices on the transit of bullion, which the case we have examined sufficiently does.

LECTURE III.

GENTLEMEN,—It is by the action of the exchanges that the transit of the precious metals from one commercial country to another is ordinarily brought about. The exchange, properly speaking, is the process by which the debts which are due by one country to another, are discharged; but the term has now come to be generally applied to the rate at which foreign bills of exchange are sold in the market. The usual mode of making a foreign payment is by remitting such a bill, which is purchased from the holder of it and forwarded to the person to whom the payment is due. This bill is an order drawn by a creditor in one country upon his debtor in another, and requiring the latter to pay a certain amount of money to the drawer of the bill, or his order. When the English debtor buys such a bill from the holder of it, and remits it to the person to whom he is himself indebted, he discharges his debt by the mere transfer of a credit, and thus avoids the risk, expense, and trouble of remitting bullion. But the Englishman who buys the bill will not necessarily pay for it the exact amount

for which it is drawn; he may give either less or more than this amount, according as bills are at a discount, or at a premium; or, in other words, according as the exchanges are for or against the country. For the exchange is said to be favourable when bills are at a discount, and unfavourable when they bear a premium. And the price of bills may be influenced by two classes of circumstances—either, like any other commodity, by those which affect the proportion between the supply and demand; or by those which affect the value of the currency. On the former depends what has been called the real; on the latter, the nominal exchange.

The real exchange may be thus explained:—When one country imports from another to no greater extent than she has exported to it, her debts will exactly balance her credits; the supply of foreign bills will be equal to the demand for them; that is, there will be bills in the market precisely for that sum which it is necessary to remit in discharge of the foreign mercantile engagements of the country. They will consequently neither rise to a premium, nor fall to a discount; they will sell for the amount for which they are drawn, and the exchange will be said to be at par But if a country has imported more largely than she has exported, there will be a greater amount of bills drawn upon her merchants by foreigners than there will be bills drawn on foreigners by her own merchants, it will have a larger sum to pay than to receive. A competition for foreign bills will thus arise, and

they will come to bear a premium in the market; that is, they will sell for a greater sum than they are drawn for. Thus, the par of exchange between England and France being 25 francs 22 c., if the exchanges were at par, a bill on Paris for 2,520 fr. would sell for its equivalent in the English currency, namely, £100; but a demand might arise in London for French bills, which would raise the same bill to a premium, and cause it to sell for £101. So, if we had been exporting more largely than we had been importing, our bills on the foreigner would exceed in amount the sum which we had to remit to him, and from the scarcity of applicants, they might fall to a discount, and sell for £99 in the market. Whenever there is an increased demand for foreign payment, whether it be to settle an unfavourable balance of trade arising from the excess of our imports over our exports, or to make foreign loans, or to defray government or other expenditure abroad, the price of foreign bills will rise and bear a premium; under circumstances the opposite of these they will fall and be at a discount.

There are, however, limits beyond which the exchanges can neither rise nor fall. As the object of making payments by the remittance of bills is merely to avoid the expense of transporting bullion, so the premium on bills can never rise much higher, nor can the discount fall much lower than this amount. If the premium were to exceed this sum, men would prefer sending the bullion in payment of their debts; if the discount

were to exceed this amount, they would prefer having the bullion sent to them by the foreigner, although, as the bill was payable abroad, the cost might fall on themselves. Nor is there in practice any such qualification to this theory, as might be supposed, because of the merchants in general not having a stock of bullion by them, or not being used to dealing in the precious metals. The remittance of bullion is very seldom made by the general merchant; it is done by a particular class of traders called bullion-merchants, men who are satisfied with a very low rate of profit, and who would think one-half per cent. good remuneration for sending gold from London to Paris. So soon as they perceive that the premium on bills has risen, so as to enable them to realize a profit, they ship bullion to their correspondents abroad, and draw bills against this consignment, which they sell in the market for the premium they then bear. Strictly speaking, it is the cost thus incurred by the bullion-merchant, together with the amount of his profit, that constitutes the extreme limit beyond which the exchanges cannot become unfavourable.

There is, however, a check upon the fall of the exchanges, which makes itself felt long before they have reached the point of depression which will lead to the export of bullion. No sooner have they begun to deviate from par, than a principle is called into action which has a tendency to restore them. It is not necessarily the case when the balance of trade is adverse to a country, or in other words, when its im-

ports may have exceeded its exports, that bullion should be exported. The debt may be paid by the export of an increased quantity of the products of the country. When the imports exceed the exports, the exchanges become unfavourable, and foreign bills rise to a premium in our market. A holder of a foreign bill for £100 will be able to sell it for a greater sum, say for £101 or £102. There is thus a direct bounty to the extent of this premium offered on exports: goods which could not be sold at a profit in the foreign market, when the exchange was at par, can now be exported with advantage, for a profit on the transaction is derived from the premium on the bill. Thus an adverse exchange acts as a bounty on exportation, and as a duty on importation, and thereby tends to correct itself, and to restore the equality between the exports and imports of the country. The exchanges will thus constantly oscillate about the par, their deviations not necessarily leading to the transit of bullion, but being in a great measure corrected by the effect which the premium and discount of bills exercises on the exportation and importation of merchandise.

The nominal exchange is that which depends upon the value of the currency. It may be affected by various circumstances, as by an alteration in the weight or fineness of the coin—or by an alteration in the relative value of gold and silver, when one country has adopted one metal, and another the other, as its standard—or by a departure in one country from the general and established level of prices, or in

other words, by lowering the value of its currency, as by the over-issue of inconvertible paper. If we take 25 francs 20 centimes as the par of exchange between London and Paris, and if the English coinage became worn or clipt to the extent of ten per cent., a bill on France for 2.520 francs, which, when the exchanges were at par, should be equal to £100, would now sell in London for £110, because this latter sum would only contain or represent as much pure metal as the 2.520 francs. The holder of the bill would not take less for it, for the person on whom he had drawn was bound to pay him so much pure metal as the £110 contained; and the purchaser of the bill at this rate would sustain no loss, for if he were to discharge his debt in bullion, he should pay £110 of the degraded currency to procure £100 of the pure foreign coin, or he should melt down 110 pieces in order to obtain the necessary amount. Thus, before the reformation of the silver coinage, in the reign of King William III., silver being at that time the standard of Great Britain, it was degraded by wear 25 per cent., and the exchanges were then said to be 25 per cent. against England. So also before the reformation of the gold coinage in 1774, the guinea being degraded 2 to 3 per cent., the exchange was said to be unfavourable to this extent. In truth, when the coinage of a country is thus degraded, if there be no intention of restoring it to its standard, the more direct course would be to declare a new par of exchange; and such, no doubt, would be the case after the coinage had continued for some time degraded, and when

sufficient time had been given to change the language of the commercial world.

To what extent prices might be affected by the degradation of the coinage, if there were no foreign trade, and consequently no export or import of bullion, it would be impossible to determine. This much, however, may be observed, that men sell their goods for the coin of the country very much because it is the universally received medium of exchange, the possession of which gives them a power of procuring all other commodities, and without reference to the other less important purposes to which the material of which that coin is composed may be applied. Prices will depend on the proportion which the currency bears to the traffic of the country: while the amount of the currency, its rapidity of circulation, and the amount of goods to be circulated and services to be paid for, remain unaltered, prices will be the same, no matter of what material the currency may be composed, no matter how much adulterated or worn the coinage may be. Now neither the amount of the currency nor that of the goods or services is directly affected by the degradation of the coinage; but the rapidity of circulation may be; for if the degradation be considerable, men may require higher prices, which can only at first be met by a more rapid circulation. There can be little doubt, however, but that this rise in price would by no means be equal to the extent of the degradation; for it is not at all likely that there should be a latent power of increasing

the rapidity of the circulation to any great extent, which should never have manifested itself until this degradation of the coinage had called it forth. And if prices are not likely, under such circumstances, to be raised to any great extent by a degradation of the coinage, neither, on the other hand, is it probable that they would fall in any considerable degree if the coinage were restored to its original standard. If there were no such thing as foreign commerce, it can hardly be supposed that our general range of prices would be much affected, though our coinage were raised to the full weight at which it was fixed some centuries ago, nearly one-third more than its present weight.

But when we take foreign trade and the action of the nominal exchange into account, the effect would appear to be somewhat different. If we could suppose the coinage to become suddenly deteriorated by loss of weight to the extent of ten per cent., the foreign bills would, as we have seen, bear a premium to that amount. But if the conclusion at which we have just arrived, as to the effect on prices of this degradation of the coinage, be correct, the prices of the staple products of the country would not rise at first in the same proportion. Suppose then that they rose to five per cent., computed in the degraded coinage, the merchant who purchased these articles for export would yet receive a premium of ten per cent. on the sale of his bill, and thus realize five per cent., in addition to the former profits of his trade. This

would encourage the exportation of merchandise and the importation of the precious metals, until prices would, after a time, gradually rise so high, from the increase of the circulation, that the increased cost of the exported articles would counterbalance the premium on the bill: thenceforth the foreign trade would proceed in its usual course, the exports balancing the imports; and the effect of the degradation would have been to have raised the level of prices by increasing the currency of the country.

If the variation in the nominal exchange be occasioned by any circumstances connected with the amount of issue of either inconvertible paper, or any other circulating medium which does not admit of being relieved by exportation or replenished by importation, prices are at once and directly affected, but no effect of any kind upon the commerce of the country can be produced; for the alteration in the rate of exchange does no more than counterbalance the change in the price of the goods for which the bill is drawn. Suppose that our currency were depreciated by an over-issue of this description to the extent of twenty per cent., a bill drawn on the foreign merchant for that sum, which had formerly been equivalent to £100 of our money, would now sell for £120. The drawer would be a loser if he were to part with it for less, for, owing to the depreciation of our currency, he was obliged to pay £120 instead of £100, as formerly, for the goods he exported; and if, instead of selling the bill, he were to receive the

value from his debtor abroad in merchandise, he would be able to dispose of the latter, when imported, for £120 in our now depreciated currency: nor would the purchaser of the bill be a loser by buying at this rate, for the same excess of currency which gave rise to this premium enabled him to sell the goods which he had imported from the foreigner, and now desired to pay for, at a proportionately high rate. Of course the bills upon England in the foreign country must, at the same time and to the same extent, be at a discount, as the foreign bills in England are at a premium.

Having already seen the advantage of a metallic currency, let us now advert to its defects. The chief disadvantages of such a currency are its cumbrousness, its insecurity, and its cost. When you recollect that forty-five sovereigns weigh more than a pound weight, you can appreciate the extent to which commerce would be obstructed, if every payment, no matter how large in amount or how remote the place to which it should be remitted, could only be made by the transmission of specie. The risk of loss in making such payments, would likewise occasion both expense and embarrassment; and there would moreover be the daily risk to which every member of the community would be exposed, by being obliged to keep considerable quantities of the precious metals in his personal custody, to meet his current expenditure. Again, the cost of a metallic currency would be very considerable; the interest at four per cent. on a million

is £40,000, so that there would be a saving to the country, in the mere matter of interest, of £40,000 a year on every million worth of the precious metals, which could be dispensed with: there would, also, be the further saving of the expense of coinage, and of the loss occasioned by wear, by shipwreck, and causes of a like nature.

But there is a further objection which has been frequently made, not only to a purely metallic currency, but also to our present mixed system, composed partly of the precious metals, and partly of paper convertible for gold on demand. It is this, that inasmuch as the precious metals are the universal medium of exchange over the whole commercial world, they must constantly be either flowing from the country or pouring into it, and thus, that the amount of the circulating medium in the country never will remain constant, but will be liable to constant expansion and contraction, and be thereby perpetually occasioning periods of commercial difficulty and embarrassment.

There can be no doubt of the truth of the fact stated in the foregoing objection. It is the necessary consequence of the adoption of a universal medium of exchange all over the commercial world, that it will flow from one country to another, as it may be needed by the requirements of their respective traffics: and it is also undoubtedly true, that a mixed currency, constructed on such principles as those by which our present monetary system is regulated, that is, the paper being convertible for gold upon demand, must

be subject to the same fluctuations as one composed exclusively of the precious metals would be liable to. Any thing that affects the relative amount of traffic of different countries would be followed by this result. A great augmentation of the productive powers of one country, while the others remain stationary, would draw the precious metals to such country from the others, to meet the increasing necessities of its trade; and on the other hand, any great diminution in its productive power would be attended with the opposite result. The effect on our circulation, of the necessity for making foreign payments, was forcibly exemplified during the famine with which it was the will of Providence to visit us in 1847, which obliged us to export no less a sum than £9,000,000, of which £7,500,000 went from the coffers of the Bank of England. Even the political changes of other countries may act upon our metallic currency in a somewhat similar manner. When the French revolution of March, 1848, broke out, a drain for gold set in upon England, at the rate of £80,000 a-week, and the previous revolution of 1830, led to a drain which continued for nearly two years, and took off £7,000,000;* such being the necessary consequence of England being the most convenient market for the sale and deposit of foreign produce or securities.

But all this being true in fact, the question yet remains, how far are these fluctuations in the amount of the circulating medium to be considered injurious?

* Committee on Commercial Distress, 1848. Commons.

When this efflux or influx of the precious metals is occasioned by any alteration in the condition of our own industry, as, for example, by any increase of our productive powers by the effect of such discoveries as those of Watt or Arkwright, or in any other way, when the change is brought about by the natural tendency of the currency of the commercial world to adapt itself to our increased requirements, it is positively beneficial. It is this very power of adaptation to the wants of the country, arising from their readiness of transport, that strongly recommends the precious metals as instruments of exchange; it is thus that the value of the standard is preserved. True it is that the amount of our currency may, on the other hand, be affected by a like alteration in the condition of some foreign country, while the circumstances of our own remain unaltered, and the consequence, so far as it extends, may be injurious: it may raise or lower, to some trifling extent, the value of the standard. But the disadvantage occasioned by alteration in the amount of our currency in the latter case, is by no means likely to be proportioned to the benefit occasioned by its alteration in the former—in other words, the efflux and influx of bullion is more likely to preserve the value of the standard than to alter it. For any one country has the whole commercial world to remit bullion to, or to derive its supply from: whenever, consequently, a change in the amount of its circulation is rendered necessary by internal causes, the process is easily accomplished, and no other country is

affected to more than a fractional extent—and even for this it will, probably, be compensated by a change in an opposite direction, in the condition of some other portion of the commercial world. That our circulation should be liable to be influenced by foreign political causes, such as I have glanced at, is doubtless a disadvantage, and must be set down at whatever it is worth, as one of the inconveniences of having adopted the common circulating medium of the world: the evil is one of comparatively rare occurrence; and we must bear in mind that we can only hope to ascertain the system of currency which is open to the fewest objections—that in which the balance of evils is less—for no faultless system has yet been, or indeed is likely ever to be discovered. Again—that our currency should be lowered in amount when famine or any other sudden emergency renders it necessary to make large foreign remittances, may be an evil; but these remittances must be made somehow; and the evil would be much greater if we were obliged to withdraw our manufactured goods from home consumption, and to force a large quantity of them suddenly on the foreign market, as, but for the power of exporting our currency, we should be compelled to do, in order to make these payments: such an amount of sales could only be made at a very serious sacrifice, for great, indeed, should be the reduction of price which would induce the foreigner to increase his consumption of our products so largely and so instantaneously as to take the necessary quantity off our

hands. Nor is this to be lost sight of, that in the case of a famine, the deficiency of the produce makes the former amount of currency excessive, which thus, to some extent, admits of being exported for the purchase of food, without affecting the country injuriously.

The disadvantages, however, of a metallic currency are in a great measure remedied by the institution of banks. "The gold and silver money which circulates in any country," says Adam Smith, "may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking—by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air—enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its land and labour. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure when they are thus, as it were, suspended on the Dædalion wings of paper money, as when they travel about upon the solid ground of gold and silver." And, in addition to correcting the evils which are incident to a metallic circulation, the institution of banks is attended with this further advantage, that the banker discharges the important function of acting as agent between those

members of the community who want to borrow and those who desire to lend; for although the borrowers and lenders of large sums, and for a considerable time, would be likely to meet each other through other agency than the intervention of the banker, yet for those small sums which are composed of the balances which every man should keep by him if he had no bank to lodge them in, it would never be possible to obtain a borrower, were it not for the banker with whom they are deposited, and whose experience teaches him how they may prudently and profitably be dealt with.

Now, banks are of two classes—banks of deposit and banks of issue. Sometimes these two functions are found united; and such union in these countries was more frequent some years ago than it is at present, as we shall see hereafter; but even where they are combined, the bank yet admits of being regarded separately with reference to either of them, either as a bank of deposit or a bank of issue.

Suppose a bank of deposit to be established—and let it be before any bank of issue exists, or before any paper money is created. Those who have confidence in the skill and conduct of its proprietors will lodge their money with them, and make their payments by drafts against the sums so deposited. Here, at once, the risk and inconvenience of keeping a large quantity of the precious metals on hands, and the still greater risk and expense of transmitting it from place to place in making payments, is in a great

measure got rid of. If there were but one bank of deposit, and if all payments could be made by bank drafts, all payments in specie might be dispensed with: and though several banks of deposit should be established, even still a very small amount of specie would be sufficient, as, by a process similar to that of the Clearing House, the drafts on the several bankers could be exchanged one with the other, and gold and silver enough to pay the balances which might be found due on such settlements would be all that would be requisite. All payments, however, cannot be made by bank drafts; the greater number of them would be too small in amount to make it worth while for the creditor to take any but cash payments: and the accounts of the most numerous classes in society —artizans, mechanics, labourers, and such like— would be declined by a bank as being wholly unprofitable. It never would repay a banker to open an account with a workman earning and spending one pound a-week, lodging his wages on Saturday evening, and drawing it out in trifling sums throughout the ensuing week: he would not find it for his advantage to open an account with any customer but one who could afford to allow a reasonable balance to appear to his credit for some period of the year; for the use of this balance is the chief source of the banker's income. He finds by experience what proportion of the sums deposited with him is sufficient to keep by him to meet the drafts as they are presented—the remainder he invests in some profitable

securities; and the gain derived from these investments, after defraying the cost of the establishment, constitutes the profit of the bank. Thus when a bank of deposit is established, if its proprietor discovers that one-third of the money lodged with him is sufficient to meet the drafts of his depositors, he has it in his power to employ the remaining two-thirds in any manner he deems eligible: so much additional circulating medium is set free in the country. If the currency be already full, that is, if exchanges be at par, this additional quantity thus thrown into the market will find its way into other lands, and the introduction of the bank of deposit will save the country to this extent the cost of a metallic currency (for you will recollect that so far we are speaking of a state of things prior to the introduction of paper); if the currency should chance not to be full, the public will be supplied with the circulating medium it stands in need of, and which otherwise it should have procured from abroad, by the conversion into active circulation of a great portion of that gold and silver which men had previously hoarded up, or kept in reserve to meet their anticipated payments. Thus, in any case, the use of gold and silver is economised in the country; and the third disadvantage of a metallic currency, that of its cost, is, in a great measure, obviated by the introduction of banks of deposit.

LECTURE IV.

GENTLEMEN,—The object of substituting a cheap and commodious currency is to a certain extent effected, as we have seen, by the introduction of banks of deposit, but it is carried out to a much greater extent by the establishment of banks of issue. In treating of banks of issue, we will first speak of those which issue convertible paper. No other description of bank of issue now subsists in these kingdoms. In the case of convertible paper, each note represents a given amount of the standard coin of the realm, which sum the issuer pledges himself to pay the holder of the note on demand. Thus the main liabilities of a bank of issue consist of the notes it has in circulation, and for which it is bound to pay gold whenever it may be required to do so. Its proprietor may, of course, contract other liabilities, by the endorsement of bills of exchange, or otherwise; but, as the manager of a bank of issue, his peculiar liabilities are the notes he has in circulation.

When the public have entire confidence in the character and solvency of a banker, they receive his promissory notes, payable on demand, and pass them from hand to hand with as much confidence as they

would the gold and silver which the note represents. Such notes have been issued for sums the most various —sometimes for so small an amount as a few pence. At present, in Scotland and Ireland, there are no bankers' notes in circulation for a less sum than one pound, and since the year 1826 no notes have been allowed in England for a less amount than five pounds, an act of parliament to that effect having been then passed. The object of the enactment was, no doubt, in a great measure, to protect the poor, who suffered grievously from the stoppages of the banks in the preceding year; it has been also thought to afford a protection to the banks against the effects of a panic, which chiefly acts upon the poorer classes, who are likely to be the holders of these small notes, and leads to a run on the bank for gold; and it is further said to be a check on forgery, as the one pound note could be issued and circulated among a class the least likely to be skilled in the detection of such imposition. Beyond doubt, a great portion of the prodigious quantity of the precious metals that enters into the circulation of England, must be ascribed to the want of notes of a lower denomination than five pounds. Gold and silver is thereby required for all the smaller payments. The amount of gold in circulation in England has been calculated at from £40,000,000 to £60,000,000; the amount of silver at from £7,000,000 to £8,000,000.* No doubt, a great portion of this

* Evidence of the Governor and Deputy-Governor of Bank of England; Report on Commercial Distress, 1848.—Commons.

could be dispensed with, and a great saving effected, if one pound notes took the place of the precious metals in the payment of wages and other small sums.

The manager of the bank of issue learns by experience what proportion of gold, as compared with his notes, it is necessary to keep by him to answer the demands of the holders. A portion of his notes is issued in the purchase of this amount of gold, and so much of his issue is unprofitable; the remainder he issues either in the discount of mercantile bills, or in purchases in the government funds, or some such other investment, and on this branch of his issue his profit is realized.

The investments, then, which a banker makes of his issues and of his deposits, are the great source of his profits. Many of the English banks derive, in addition, a small profit by a commission which they charge their depositors on each transaction; while, on the other hand, the Scotch banks, and others which profess to be based on the Scotch principle, look so much more to securing a large amount of deposits, that they allow a small rate of interest as an encouragement to their customers to leave their cash in their hands.

As the banker is liable to be called upon to pay at any moment, on demand, it becomes of course a matter of primary importance with him, that his investments shall be on such securities as can be readily realized. If a run were to set in on him for gold, at a time when

his money was invested in mortgage of land, he would be obliged to close his doors and suspend his payments, either until a foreclosure suit was brought to a close, or at least until he had assigned his mortgage, with all the trouble of making out title, and the other delays incident to conveyancing. Public securities, but chiefly the funded or unfunded debt of the nation are, for the most part, eligible investments; so, also, is the discount of good mercantile bills. In some respects, indeed, the latter is a more desirable investment than the former, for if a pressure sets in, and the bank is obliged to realize, the public securities may fall in value by being pressed upon the market, whereas the bills of exchange, if they be the bills of solvent parties, will be paid in full. The sum which the banker advances when he cashes the bill is, together with the amount of the discount, repaid in full when it reaches maturity. Suppose a banker to have applied one-third of his issue in purchasing gold, and with the other two-thirds to have discounted mercantile bills, at three months' date, and to have made no other investment; if he felt a pressure for gold setting in, and that it became necessary for him to realize his securities, all he need do is to refuse to discount; his bills would be daily falling due, and as they were the amount would be paid in to him, until at the expiration of the three months, if they were all punctually paid, the last note he had outstanding would have been returned to him in payment for the last of the bills he had discounted, or in demand for

the gold in his coffers: his liabilities would all have been called in, and the public would not hold a single note for which they could demand gold in exchange. Again, if he anticipates a pressure, by reducing the currency of the bills he discounts from three months to two, he can bring his liabilities so much more within his control.

In addition to the public securities and the private mercantile bills, there is another mode of investment, which prevails extensively in Scotland, which is known as the cash accounts or cash credit system. It consists in a power granted to an individual or a firm to draw on the bank for a sum agreed on, first producing two or more sufficient securities. The credit thus granted varies from £50 to £1,000. The whole of this cash account may be drawn for at once, or at such times and in such amounts as the holder may find it necessary; the period of repayment, and the sums in which the advance shall be repaid are likewise at the discretion of the borrower, he merely paying interest upon the sum which he at any time avails himself of. It seems to be generally admitted that this system has been found beneficial to the shrewd and business-like people amongst whom it is established. There are those, however, who hold an opposite opinion, who conceive that the effect of the cash credit is, in periods of excitement and rising prices, to stimulate speculation unduly. "Perhaps it is chiefly owing to the cash credits," says Mr. Norman, "that in periods of commercial difficulty no country is said to suffer

from insolvency more severely than Scotland."* This much, however, is clear, that they put the issues of the banker much more out of his control than if they were made on mercantile bills, for the banker knows the time when his bill will be paid, but can never say when the cash credit advance will be refunded, the period being entirely optional with the borrower, and liable to be influenced by a variety of causes; and if serious inconvenience has not been found to result from this practice, it is, perhaps, chiefly to be ascribed to the great intelligence and business-like character of the Scotch people, exhibiting itself, not only on the part of the conductors of the banks, but also among the general public in their dealings with those establishments.

You will have no difficulty in seeing that, with a convertible paper currency, the effect of an excess or deficiency of such issue must be precisely similar in its action on the exchanges, and on the efflux and influx of the precious metals, to that of an exclusively metallic currency. Suppose the issue to be in excess, prices rise; the value of the whole currency, both of that portion which is of paper and that which is metallic, is equally depreciated: this rise of price checks the exportation of merchandise, and leads to the exportation of the precious metals. The gold and silver thus exported is either taken from the general circulation, or it is drawn from the bank. In

* Remarks on Currency and Banking. By George Warde Norman. 1838.

the first case it lowers the circulation directly; in the second case it does so indirectly, for the notes which were in circulation are now returned to the bank in exchange for gold to be sent abroad. If the bank thinks proper to re-issue these notes which are so returned, instead of allowing the public to diminish the circulation by this natural action on their part, the effect will be, that the exchanges will be kept so much longer adverse, the stream of the precious metals will flow out continuously, and will continue to flow so long as the over-issue is persevered in, until every sovereign may be drained from the coffers of the bank, and it may be left without any present means of meeting its liability to pay its notes on demand. To prevent this result, when they see it impending, the banks will, in all likelihood, abruptly and violently contract their issues, lowering prices to as great an extent as the excessive issue had formerly raised them, causing the exchanges to set in in favour of the country, and the stream of gold to flow back to their coffers.

Now this violent expansion and contraction of the currency is ruin to all the mercantile interests, and yet it is the inevitable result of a system which has still many advocates, and which has but lately been checked—that of allowing a number of banks of issue to subsist in the country. When prices are looking upwards, markets buoyant, money plentiful, and discounts readily obtained, men speculate freely, and contract engagements with confidence. The

bankers co-operate with the public; they can hardly, indeed, do otherwise. Living in the midst of their customers in their several districts, sympathising largely with their mercantile prosperity, and expected to give every fair facility which will promote it, they will not hesitate to discount the legitimate bills which the high state of credit has given birth to: having the power of creating the circulating medium of the country, they will be led, partly by the importunity of their customers, partly by a legitimate desire to assist them, partly by a natural anxiety to engross as much as possible of the profits of the district, and to narrow the field of competition of their rivals to abuse this power. True it is they perceive the exchanges becoming adverse, and a demand for gold setting in, but no individual banker can say to what extent his own excess of issue has contributed to this result; no reduction that he could make would have any appreciable effect in restoring the exchanges, and the withdrawal of any portion of his issues would be so much lost to himself, and would but present an opening for his rivals to fill up. Presently, however, when the drain for gold has set in rapidly, and the convertibility of the notes is perilled, it is universally felt that the issues are in excess: each banker then endeavours to lower the amount of his circulation, and limit the amount of his accommodation as rapidly and extensively as possible. Having realized all the profits that were to be made by the over-issue, having by this very over-issue aggravated the undue specu-

lation which had set in, it now becomes his concern to retreat as rapidly as possible, and without any consideration to the condition of others, from the impending ruin. The circulation is now as abruptly contracted as it formerly was inconsiderately expanded. Engagements which were entered into when money was plenty and prices high cannot now be fulfilled; purchases which were made at a high rate now lie on hands unsold, or can only be disposed of at a ruinous loss; and this cruel mismanagement on the part of the banks brings hundreds to bankruptcy, spreads distrust over all, and checks and hinders for a time all dealings between man and man.

Of course the greater the number of such banks of issue, the greater is the liability to commercial revulsions, occasioned by such causes as we have just noticed. And here it is worthy of your attention that a banker cannot, by remaining quiescent and not augmenting his own issue, escape uninjured at a time when the circulating medium is being unduly increased by the other banks of the district. This principle has been so clearly expounded by a writer in the *Dublin University Magazine*,* that I cannot explain it to you better than in his own words:—

"By way of illustration, we shall suppose two

* February, 1840—being the second of a series of four papers on Banking and Currency, written by Mountifort Longfield, Q.C., LL.D., Professor of Feudal and English Law in Trinity College, Dublin, and one of the Commissioners for the Sale of Incumbered Estates in Ireland.

banks, A and B, with equal business and equal capital, keeping the circulation of their district full, but not redundant, by an issue of £40,000 each, and that they each retain a reserve of £15,000 in gold, to meet any occasional demands or runs that may be made upon them. Let us now suppose that the bank A adds £20,000 to the amount of its discounts, and examine what will be the effects of this over trading on each bank. In the first place, the circulation will be excessive to the amount of £20,000, and gold will in due time be demanded for this excess of paper. But the public will not reason thus; bank A has been guilty of over-issue—there are too many of its notes in circulation; we will apply to it for gold. On the contrary, those who want gold will demand it from the bank whose notes they happen to possess; and, as the notes of the two banks are distributed through the country in the proportion of three to two, the demand for gold will be in the same proportion; thus £12,000 will be drawn from A, and £8,000 from B. The banks will then be thus situated: A will have a circulation of £48,000, and £3,000 in gold; B will have a circulation of £32,000, and £7,000 in gold. In this state of things, the daily or weekly exchanges between the two banks will balance each other, and no gold will pass to either side. If bank B discounts £10,000 of bills every week, it will receive, on an average, that sum in payment of them, of which £6,000, or three-fifths, will be paid in its rival's notes, and £4,000, or two-fifths, in its own. It will there-

fore return £6,000 every week to bank A. But as bank A's business exceeds B's in the proportion of three to two, it will discount £15,000 every week, and receive the same in payments. Of this sum £9,000, or three-fifths, will be paid in its own notes, and £6,000, or two-fifths, in notes of bank B; and thus each bank receiving the same amount of the other's notes, the exchange will be made without the transfer of any gold to either side. We have given this example to explain and illustrate this proposition, that, in the absence of any disturbing cause, the circulation maintained by each bank will be proportioned to the amount of business done by it. In the example we have just given, it is to be observed that the quantity of gold in the bank which did not increase its discounts has been diminished in a greater ratio than its circulation. If the managers are desirous of keeping up the former proportion of fifteen to forty, or three to eight, it can only be done by reducing its discounts from £40,000 to about £30,000.

"Thus the over-issue of one bank will derange the proportion between the gold and the circulation of another bank, which can preserve the proportion only by reducing its own discounts. Hence a bank of issue may have its gold drained off by a rival, which, if it has capital enough, may even ruin its competitor without any injury to itself. If to avoid this calamity it contracts its issues, it thereby enables its rival to extend its business still more, until at last the more moderate

bank is obliged to give up business altogether. Thus a bank may be driven, in self-defence, to take up the system of over-trading adopted by its competitors, and where there are several joint-stock banks of issue, the country will suffer under alternations of high and low prices, of confidence and panic, of great excitement, and general depression of trade. That bank will gain most which does most business during the period of excitement, and is quickest and most resolute in contracting its issues and refusing to discount when the panic is coming. A system can scarcely be devised more injurious to the prosperity of a great commercial nation than this of permitting every one who wishes it to make and issue that which is to be its circulating medium, at the same time that it is their interest to issue as much as possible when the spirit of over-trading is prevalent, and to reduce their issues when trade begins to stagnate, and wants a stimulus to revive it."

The pressure on the mercantile community, of which we have just been speaking, is one arising from the sudden contraction of the currency succeeding to over-issue, and, disastrous though the consequences may be, yet a limit may be assigned to them. The evil is to a great extent self-correcting; when the exchanges turn and set in favourably, when gold begins to find its way back again to the coffers of the bank, confidence is restored, the banks discount once more freely, the circulation is replenished, prices resume their former level, and commerce its wonted activity.

Indeed, some of the very highest authorities* on such subjects have given it as their opinion that the course of trade revolves in a cycle; commencing with a state of quiescence, we next find a state of improvement, then growing confidence, then prosperity, excitement, over-trading, convulsion, pressure, stagnation, distress, ending again in quiescence; and the writer in the *University Magazine*, to whom I have just referred, adopts this cycle, and states that the period of revolution had generally been about five years. Both these opinions, however, were expressed before the act of 1844 came into operation, the provisions of which we will hereafter refer to.

But commercial distress may originate in causes very different from the sudden contraction of the currency, and wholly unconnected with what may be called the "state of trade." The most disastrous periods that the country has ever passed through have been occasioned by panic. A demand for money then sets in, not for export, but for hoarding; so far is the evil from being self-correcting, that it daily gains intensity—it knows no limit, and acknowledges no law.

To take the latest instance as an example, that which occurred in October, 1847; many mercantile houses had at that time speculated largely in corn, the price of which, from the deficient harvest, had risen to

* Samuel Jones Lloyd, now Lord Overstone. "Reflections suggested by Mr. J. H. Palmer's Pamphlet on the Causes and Consequences of the Pressure on the Money Market." London, 1837.

120*s.* but subsequently fell, from the large importations, to 60*s.* The consequence of this great fall in price was, that several of these firms failed. At the same time, a sudden fall in the price of sugar occasioned the suspension of other firms connected with the Mauritius and the West Indian trade. Credit being affected by these failures, several eminent London firms stopped payment, and almost immediately succeeded the stoppage of several banks in Liverpool, Newcastle, and elsewhere. Credit now became entirely prostrated; banks and discount brokers refused to make advances, and a general panic set in. In the difficulty of obtaining the usual accommodation, every man feared that he would not have enough of the circulating medium to meet his engagements. The reserve of the bank, that is, the available fund it had for advances, was gradually sinking; and although the exchanges had been favourable, and gold flowing in for five months previously—although the amount of notes in the hands of the public exceeded by upwards of £4,000,000 what it had been two months before, yet no man would trust his money into general circulation, but kept as much as he could to meet his own wants in his safe, locked up and inoperative. The circulation was deficient, not in its amount, but because of its not passing freely from hand to hand. As the panic was occasioned by a feeling on the mind of the public that there should necessarily be a deficiency of the circulating medium, so it was allayed by an authority given by the Government to the

bank to issue without limitation, at a rate of interest not lower than eight per cent. We will hereafter see why the present construction of the Bank of England made such an authority requisite. The effect of it, however, was, that when the public found they would have no difficulty in procuring money, applications for it ceased; those who had been the most urgent in requiring it, sent word that they did not then need it; and rolls of notes, which had been obtained by earnest solicitation, and at a high rate of discount, were returned unopened. Whether or not, this government letter could have been dispensed with, whether the panic might not have exhausted itself, or what disasters might have occurred before it would have done so, it would be difficult to say, and unnecessary for our purpose to inquire into. I only allude to those events in order to call your attention to one of the most recent instances of commercial distress, which has been occasioned by a panic —a case in which credit and confidence having been first shaken, ruin was brought to many by an apprehended scarcity of that circulating medium which they then had in excess, but that their alarm prevented them from making it available. So, also, in 1825, when credit was annihilated, and a panic had set in by reason of the failure of very many of the country banks, when such was the state of things, that Mr. Huskisson stated if it had continued for forty-eight hours longer, it would have put a stop to all dealings between man and man, except by way of barter, it

was relieved, and confidence restored by a liberal issue, at the rate of six millions a-week, on the part of the Bank of England; much of which, as in 1847, came back again to the bank, with the bundles unopened. "No man," said Mr. Huskisson, "could tell what would have been the consequence, if the bank had not stepped in, and by this timely and liberal interference saved the country from destruction." So, also, a similar panic in 1793 was relieved by similar means. There is no likelihood of a liberal issue under such circumstances affecting the exchanges, or leading to a drain for gold for export; for the demand is for money to be hoarded, and not for the purpose of sending it into the general circulation; when confidence is restored, it will be returned again to the bank. These few instances will supply you with illustrations of the principles which have been thus expressed by Mr. Huskisson: "The consequences of sudden alarm cannot be measured; they baffle all ordinary calculation. Cash is then withdrawn, not because the circulation is excessive, but by the country banks and town bankers, for the purpose of meeting possible demands upon them, and by the community at large, either directly from the bank, or indirectly through the former channels, for the purpose of hoarding, form the dread of some imaginary or contingent danger. In such a crisis, every reduction in the amount of bank paper is so far from checking the drain, that it aggravates the general distress, because the gold which is taken out of the bank, instead of being substituted

in circulation for the notes withdrawn from it, is for the most part locked up; and thus in proportion as the stagnant and straitened circulation wants life and aid, it becomes every day more embarrassed, whilst each new calamity produced by such a state of things, contributes to spread and increase the general apprehension." A demand for gold, or Bank of England notes for hoarding, when such demand arises from panic, may, it would thus appear, be generally best checked by enlarging the issues; a demand for gold for export must ordinarily be stayed by contracting them.

It is hard to realize, it is almost impossible to exaggerate the extent of misery which these commercial revulsions bring along with them. No amount of care or forethought is misapplied, that is directed towards establishing a system which will make their occurrence less frequent, or their effects less severe. The pecuniary suffering falls chiefly on the poorer classes, inasmuch as that having little to lose, they are the less able to bear it. But who will tell the mental sufferings of the high-spirited merchant, whose enterprise and industry had realized an honourable independence; or who, bearing perhaps a name, and representing a race associated with commerce for generations, and never but with honour, is now bowed down, even to insolvency. Prudence and intelligence in such a crisis avail nothing: traders have been not inaptly compared to nine pins, in which those who are not themselves struck are yet brought down by

their neighbours in their fall; and by the failure of one, the most remote may be affected through many intermediate steps. I recollect being told by a Glasgow merchant that he had escaped uninjured by a recent failure which had taken place in that city, but that he feared its effect would be to bring down an Edinburgh house, which, if it failed, would seriously affect a firm in Liverpool, and if the latter broke he would be much injured. Thus, although he had carefully avoided having any dealings with the firm which first became insolvent, no foresight could protect him against the remoter consequences of its failure. The sufferings in the manufacturing towns under such circumstances are extreme. The factories are stopped, the hands are thrown out of employment. Worn out in body with incessant, unwholesome, and monotonous toil, and now prostrate in mind by the ruin that has overtaken them, you may see them grouped together in the streets, some in utter despair, others with anxious eagerness canvassing the measures which are proposed for the relief of their present necessities. Sickness and crime, the inseparable attendants of wretchedness, soon appear, and in the hospital and the gaol the scene closes on many a victim of an ill-regulated commercial system. It has been said, indeed, that much less than a commercial revulsion may produce somewhat similar results. It has been stated by Sir Archibald Alison, whose position as sheriff of Lanarkshire afforded him ample opportunities for observation, that "he has

observed, during the whole time he has been in Lanarkshire," from the year 1834, "that any rise in the discount of the Bank of England has been immediately, or at least shortly, followed by an increase both of crime and of civil suits; and, if it continues long, of mortality and typhus fever." This he attributes "to a great increase in the transactions of the country, which originate in the circulation being much, and often unduly stimulated; then followed by a sudden contraction of the currency, which disables persons from the performance of obligations which have been entered into. Thus the one state of things produces a multiplication of contracts, and the other produces a disability for the fulfilment of them that throws people out of employment, and reduces them to a state of want, and makes such a number of people idle that crime increases and disease augments, and every thing goes wrong together."*

Our previous inquiries will have now prepared you for the conclusion, that that system of currency will be the best, which, while it secures to us the steadiness in value of a metallic currency, is at the same time exempt from its defects of cumbrousness and cost. Such a system is sought to be established by a well regulated convertible currency; and the test of the excellence of such a currency is, that it shall fluctuate in amount precisely as one composed exclusively of the precious metals would have done. We will

* Report on Commercial Distress, 1848. Lords.

presently see the regulations which are now in force in this country to secure this object; but let us first advert briefly to some of those faulty systems, which have been either attempted in practice or strongly recommended for adoption.

I need hardly caution you against supposing, as some have done, that the rate of interest could furnish any guide as to the sufficiency of the circulation. There is, in fact, no connexion between the two. The interest which men will be willing to pay for money depends upon the profit they can make of it in their trade; and the profits of trade depend on circumstances connected with the trade itself, and not with the amount of the currency. The currency of Great Britain was not only abundantly sufficient, but it was depreciated nearly 30 per cent. by over-issues during the period of suspension of cash payments, and yet the rate of interest ranged from 8 to 10 per cent. higher than it subsequently did when cash payments were resumed, and the circulation had been reduced to its due level. So far, indeed, are the two from being connected, that interest could exist even though there were no circulating medium in the country. Interest is paid for the capital that is advanced. That capital, though, no doubt, almost always advanced in money, need not necessarily be so; neither is it necessary that the return which is paid as interest for the use of that capital should be paid in money: both interest and profit would exist if there were no currency at all, and if the business

of society were carried on by barter. But admitting interest to be paid for the use of money, still a mere increase of the currency, other things remaining unaltered, will have no effect on its rate. If, when interest is at the rate of five per cent., the money of the country were suddenly doubled, and the consequence were to reduce its value one-half: under such circumstances we should, no doubt, be obliged to pay £10 for articles which we formerly got for £5; but the rate of interest would not rise; we should not be obliged to pay £10 for the loan of £100, which we formerly got for £5, because the number of sums of £100 in the country has been doubled. Neither would the rate of interest fall. We would not get the loan of £100 for £2 10*s*., instead of £5, because the number of sums of £5 in the country had also doubled. The £100 is now only worth what £50 formerly was; the £5 is only equal to £2 10*s*. The whole currency being depreciated, the £5 is still paid for the loan of the £100, and the rate of interest remains, as it had been, at five per cent.

Systems of currency have been from time to time established, which, confiding the issue of the circulating medium either to the State or to private companies, have provided no limit to such issues but the discretion or caprice of the issuers. Such was the scheme of the French assignats in the year 1790; such was the condition of the English issue under the Bank Restriction Act, from the year 1797 to 1819. In the year 1790, the revolutionary Government of

France having confiscated nearly one-half of the territory of the country, comprising the property of the Crown, the Church, and the emigrants, thought proper to issue notes, termed assignats. These notes were issued in the public payments of the country; they were made a legal tender, and were to be received by the Government in payment for all purchases which should be made of the confiscated property. These notes bore a deception on the face of them. They were in the following form :—

"National Property Assignat of 100 francs."

But there was no connexion between such note and 100 francs, further than as it expressed the sum for which it was issued. It was not convertible for this or any other sum. It was itself a legal tender; it was to be received in payment of national property, but at what rate would necessarily depend very much on the amount of the notes issued and of the property offered for sale. At the first issue of these assignats, the amount was limited by law to 400 millions of francs; but, in spite of this enactment, in the space of six years, the issue amounted to no less a sum than 45,579 millions. So great was the depression occasioned by this over-issue, that, in the year 1796, an assignat professing to be worth 100 francs, or £4 of our money, was currently exchanged for 5 sous 6 deniers, or rather less than 3*d.*; and this, too, notwithstanding a law punishing with twenty years' im-

prisonment in irons any one who should be convicted of the offence of taking assignats at less than par. The ultimate result was, that of the whole 45,579 millions, but 12,744 millions were in some way discharged, leaving 32,835 millions French, of the nominal value of £1,313,000,000 sterling—not very far from twice the amount of our national debt—as mere waste paper in the hands of the holders.* Such depreciation as this amounted practically to the rescinding of every contract in the country.

In England, in the year 1797, a formidable drain for gold set in on the coffers of the Bank. This drain was attributable to a panic, which, if it be occasioned by an apprehended scarcity of the currency of the country, may be relieved, as we have seen, by liberal issues, or by such arrangements as will give assurance of an adequate supply; but which, if it be occasioned, as it then was, by a dread of foreign invasion, knows no limit. It is said that the panic arose because of the government having issued orders for taking stock of the farms of Northumberland, in order to regulate the mode in which the country should be driven in the event of an invasion. The farmers forthwith drove their produce to market, sold it for the best prices they could realize, and demanded gold at the banks in exchange for their notes. Presently the banks at Newcastle stopped payment; this

* Abridged from Mr. Senior's Lecture "On some Effects of Government Paper Money," London, 1830, in which he follows the account given by MM. Storch and Thiers.

extended the run for gold to other parts of the country, and caused a violent drain to set in on the Bank of England, until, on the 25th of February, when the panic was at its height, the whole stock of coin and bullion in the coffers of the Bank, amounted to but £1,272,000. In this emergency, an order of council was obtained on the next day, Sunday, to suspend cash payments at the Bank, until the sense of Parliament should be taken on the subject; and by subsequent legislative enactments, the suspension was continued until the year 1819, during which period we had an inconvertible paper currency. For several years this power was not abused, and, consequently, with little exception, the exchanges were unaffected, and the amount of currency was no greater than it would have been, if the paper were convertible for coin as formerly. But in the year 1809, a very decided over-issue took place, which was followed by a still greater excess in the ensuing year, so much so, that exchanges with Hamburgh and Paris fell sixteen to twenty per cent. below par, and gold was selling at £4 12*s.* per ounce, in England, without having risen in value on the Continent.

These are two of the most remarkable illustrations of that which all experience has shown to be true, that neither the state nor any body of men can safely be intrusted with the command over the issues of the country. But even though such power could be guarded against abuse, the system would be no less a vicious one. We have already seen that the fluc-

tuations in amount of a metallic or of a well-regulated convertible currency, adapting itself, by a process of self-adjustment, to the ever-varying requirements of the country, will both provide for the necessities of its traffic, and go far towards maintaining the steadiness in value of the circulating medium. We will hereafter see the regulations which have been adopted in this country to establish such a currency. But how are these objects to be effected, if the regulation of the issue be committed to the State. If a fixed amount be prescribed, it will be at one time deficient, at another redundant, according as commerce is active or languid, as the productive powers of the country are increased or diminished, and the value of the standard will thus be ever unsteady. If, on the other hand, the Government endeavour, from time to time, to adapt the issues to the requirements of the country, they will attempt that which is utterly beyond their power; it never can be accomplished. In the language of the Report of the Bullion Committee of 1810, "The most detailed knowledge of the actual trade of the country, combined with the most profound science in all the principles of money and circulation, would not enable any man, or set of men, to adjust, and keep always adjusted, the right proportion of circulating medium in a country to the wants of trade." The utmost that they could effect would be to endeavour to do that which the advocates of this system would desire to avoid, to keep the inconvertible currency equal in amount to what it would have been if con-

vertible, by making the former fluctuate as the latter would have done: and this might, to some extent, be accomplished, by always issuing such an amount as would keep the exchanges at par; and by having regard to the price of bullion here and in other countries, subjects which we will have occasion to examine into in our next lecture. This course, however, would be but an awkward mode of accomplishing the self-same end that a well-regulated convertible currency would much better effect; while it would be open to the further objection of intrusting to individuals a most dangerous discretion, and one most likely to be abused.*

* Sir Archibald Alison says that the debates on the resumption of cash payments (in 1819) exhibit "one of the most curious instances recorded in history of the erroneous views entertained by the ablest men, and the general insensibility to impending dangers on the part of an entire community"—that "neither Mr. Horner, nor his opponents upon the Treasury Bench, perceived what is now evident to every reasonable person who, apart from interested motives, reflects on the subject; that all the difficulties and dangers of a resumption of cash payments might have been averted, without either risk or detriment, by the simple expedient of taking the paper currency, like the metallic, at once into the hands of Government, and issuing, not an unlimited amount of notes, like the French assignats, not convertible into the precious metals, but such a *limited* amount as might be adequate to the permanent and average wants of the community."—*History of Europe from the fall of Napoleon to the accession of Louis Napoleon.* 1853.

For the reasons which I have assigned in the text, I cannot but hold this view to be erroneous on economical grounds. I confess, moreover, that the proposal to put all the commercial interests of these countries under the control of the minister of the day, by giving him the command of the circulation and the regulation of the issue, seems to me, on political and social considerations, to be a most dangerous one.

LECTURE V.

GENTLEMEN,—The system which the Bank of England proposed to itself for the regulation of its issues during the period of suspension of cash payments, the only time at which we ever had experience of an inconvertible paper currency, is one deserving of your attention, for it still finds advocates, notwithstanding the disastrous consequences that then followed from its adoption. It is that of regulating the circulation of the country by the demand for discount of legitimate mercantile paper. "The criterion," says the governor of the Bank of England, before the Bullion Committee, in 1810, "by which I judge of the exact proportion to be maintained between the occasions of the public and the issues of the Bank, is by avoiding as much as possible to discount what does not appear to be legitimate mercantile paper." And at the present day we have the same doctrine constantly put forward. A Nottingham banker,* for example, of great experience, says, "The *Times* paper, May 1st, 1841,

* I. C. Wright, Esq.—Report on Commercial Distress, 1848. Lords.

declares 'our system of paper currency will remain imperfect until some mode shall be discovered of enabling it to apportion its supply and demand, without reference to the efflux or influx of specie.' The wants of the country, as shown by the legitimate supply of good bills for discount, are indeed the correct criteria, not the ebb and flow of gold, which is influenced by accidental circumstances, and affords no correct index of the balance of trade, as the act of 1844 assumes." Now, if the "wants of the country" require its circulation to conform to its wealth, the principle here advocated fails to carry out this object. Its fallacy in this particular was exposed almost as soon as the doctrine was broached.* The error consists in overlooking the fact that the same commodities may be the subject of various exchanges, each exchange giving origin to a bill, all which bills may be outstanding and under discount at the same time, adding each of them its own amount to the currency of the country. The importer of tea may sell a large lot to the merchant, and draw a bill on him, say at six months' date, for the amount; the merchant may in the course of a week or two, sell to the wholesale grocer, and draw a similar bill; so again the wholesale grocer, may in a few weeks, sell to the country shopkeeper on the same terms, and the shopkeeper to the consumer. Each of these transfers is represented by a distinct bill, all of them are "legitimate mercantile paper," founded on

* Essay "On the Nature and Effects of Paper Credit." By Mr. Thornton, 1802.

bona fide mercantile transactions; and upon the principle we are examining, they should all be discounted by the Bank; so that the same lot of tea would have called forth an amount of circulation three or four times greater than its value. Through how many producers must not the cotton pass from the day it is first landed on the quay as the raw material of manufacture, until it is sold in the form of stockings or of lace to the consumer; or trace the iron from the time it is raised from the mine, until it is sold as a locomotive engine—every transfer may be represented by a fresh bill, many or all of which may be current, and under discount together. So much for the advantage which this system has been supposed to possess—that of adapting the circulation to the wealth of the country.

But it is not only that it thus fails in accomplishing the good that has been ascribed to it, but it would be attended with positive evil if adopted, and that of the most injurious character. The effect of the system would be, that when credit abounded, when prices were rising, and speculation had set in, when sales were readily effected, and goods began to pass freely and rapidly, the "legitimate supply of good bills for discount" would be greatly increased; and as, on the principles of this system, they should be all cashed at the bank, the currency of the country would be likewise increased at an enormous rate. This facility of procuring money would itself stimulate intensely the spirit of speculation, which in its turn would swell

the stream of issue which bore it forward. If the currency were a convertible one, every sovereign would be speedily drained from the country; if an inconvertible one, it is difficult to say where or when a limit could be set to the increase of circulation, so long as every man who made a sale was entitled to get the bill he drew for the amount discounted. This, at least, is certain, that as the speculation had been inordinately stimulated, so would the recoil, when it came, be disastrous: credit would be prostrated, men would hesitate to sell but for immediate payment, the "legitimate mercantile paper" would be so scarce that there would be none to offer for discount—no issue, consequently, of circulating medium, or next to none—and, from want of confidence, society would be brought almost to a state of barter. Under such a system the country would be constantly subject to the evils of a currency most unsteady in value, and to the severest commercial revulsions.

It is, besides, a mistake to attach the importance which this doctrine does to the distinction between "legitimate mercantile paper" and accommodation bills. An accommodation bill, no doubt, is not based upon a sale of goods, as between the drawer of the bill and the acceptor; but when discounted by the bank, the money which is issued upon it will be applied either to make new purchases, or to pay for those already made, so that the accommodation bill represents a transfer of property fully as much as the "legitimate mercantile paper;" the distinction simply

being that "in the case of the real bill a *bona fide* transaction takes place prior to its being converted into currency; in the fictitious bill the conversion into currency takes place in the first instance, and the *bona fide* transaction follows."* It doubtless makes a very considerable difference to the bank whether it lends its money on accommodation, or on genuine bills. The former are much less likely to be punctually paid, or to be paid at all. They originate with a borrower of money and a lender; the first must be in bad mercantile credit, or he need not resort to this device; the latter, who lends his name to a person so circumstanced, is likely soon to come to the same condition. These are highly important considerations for the bank, as a matter of prudence, and with a view to its own security; but, so far as any indication is to be afforded of the wants of the country, with reference to its circulation, from the supply of bills for discount, it is fully as much afforded by the supply of accommodation bills as of "legitimate mercantile paper."

I need hardly call your attention to a system of currency which has been recommended by the honourable member for Birmingham.† His view is, that the best system is one consisting of inconvertible paper, to be issued by the State, and to be regulated

* Observations on the Course of Exchange. By William Blake, F.R.S. 1810.

† P. H. Muntz, Esq., M.P. Report on Commercial Distress. Commons. 1848.

in amount according to the population of the country. His evidence is as follows :—

"1300. Will you state what is the inconvertible paper currency that you think is the best?

"A paper currency inconvertible into any money whatsoever, and to be issued by the State in limited quantities, so as not to cause depreciation.

"1301. How would you limit the issue?

"It must be ascertained by degrees: you must ascertain what quantity of circulation the country actually requires, without depreciation; that might easily be ascertained. I see no difficulty myself in ascertaining it.

"1303. You would have a government department for the management of the issues?

"Yes; perfectly independent of the Chancellor of the Exchequer for the time being; a board appointed by Parliament.

"1305. How are they to regulate the quantity that they are to issue?

"Expressing an off-hand opinion, when the proper amount of circulation is once ascertained, it should be regulated according to the population of the country. As the population increases, the circulation should increase with it. But I should commence with the £14,000,000, and then I should increase it gradually, replacing the Bank of England notes with national notes, till I saw a tendency to depreciation, at which point I think it ought to stop."

It will not be disputed that a population may grow in wealth at a greater rate than it increases in numbers. If so, there is an end to this theory. If it were correct, no larger currency would be needed for a rich and enterprising manufacturing English district, than for a district in Ireland, or amongst the North American Indians, which comprised an equal number of inhabitants.

Again, it has been proposed to regulate the amount

of issue of an inconvertible paper currency by either or both of two tests; the first that of the exchanges, and the second that of the price of bullion. It was strongly contended during the period of restriction of cash payments, when we had practically an inconvertible paper currency, that if the Bank of England had observed the indications which these two tests afforded as to the deficiency or excess of the circulating medium, and if it had regulated its issue thereby, the currency could always have been maintained at its due level. And it certainly would appear that if it were possible to secure an observance of these tests on the part of the public issuer—which, however, it must be admitted, that neither reason nor experience would justify us in expecting—it might be possible that the amount of circulation could be regulated thereby, and kept free either from excess or deficiency. With reference to the first of these tests we have already seen how, with a metallic, or with a mixed convertible currency, any undue expansion or contraction of the circulating medium evidences itself in the exchanges, and regulates itself by the efflux or influx of the precious metals. In the self-same way the exchanges are affected with an inconvertible currency; but in this case there is no process by which the currency is naturally relieved; the symptoms indicate the evil, but there is no power of self-correction; it must be adjusted by those who have the control of the issues. But if the exchanges be constantly kept at or about the par, we may fairly

infer that the currency is equal in amount to what it would have been if it were convertible. This test is open but to one objection, namely, that the exchanges may be unfavourable, not by reason of an over-issue, but from the necessity of making large foreign payments, occasioned by a general excess of our imports over our exports, or by our being obliged to purchase food in time of dearth, to send subsidies to allies, or remittances to troops in case of war, or such like—in short, from circumstances affecting the real, not the nominal exchange. There would be little difficulty, however, in distinguishing between the two cases—for, in the first place, in the case of the real exchange, the necessity of making the remittances, and their amount, would be likely to be known, and its fair influence on the price of foreign bills could be pretty well conjectured; and in the next place, the effect on the exchanges would be temporary and of short duration, for, as we have already seen, an unfavourable real exchange leads to its own correction, by operating as a bounty on exports; whereas an unfavourable nominal exchange with an inconvertible currency has no such principle of self-correction—its effects will be permanent, continuing until they may be corrected by those who have the control over the issue. By this difference in their effects, it may be fairly determined, whether the exchanges are affected by circumstances relating to the amount of the inconvertible paper, or by circumstances connected with the commerce and transactions of the country. Now

this principle of regulating their issues by the exchanges was, during the period of the Bank Restriction Act, formally and officially rejected by the Bank of England. A resolution of the Court of Directors was adopted on the 25th March, 1819, and laid before Parliament, to this effect—"That this Court cannot refrain from adverting to an opinion strongly insisted on by some, that the bank has only to reduce its issues to obtain a favourable turn in the exchanges, and a consequent influx of the precious metals. The Court conceives it to be its duty to declare, that it is unable to discover any solid foundation for such a sentiment."

A second test by which an inconvertible paper currency might be regulated, is the price of bullion. We have already spoken of the market and mint price of bullion, and we have seen that in the case of a metallic or a convertible currency, and with our present mint regulations, those prices must always coincide; no excess or deficiency in the circulating medium can affect this coincidence of the market and mint price, and consequently, the price of bullion, under such circumstances, supplies no guide for the regulation of the currency. But with an inconvertible paper currency the case is very different. Bullion is the commodity which, beyond all others, is steady in the intrinsic causes of its value; any thing that affects these, as the discovery of new sources of supply, or such like, is so notorious as readily to be allowed for. If, then, we find bullion constantly ris-

ing in price, as measured in the inconvertible paper at home, and this unaccompanied by any increased demand for bullion, or by any rise in its price in any foreign country, we may assuredly arrive at the conclusion, that our currency is being issued in excess. Yet was this test of the price of bullion also rejected by the Bank of England. The governor of the Bank is asked, in his examination before the Bullion Committee, in 1810 :—"The market price of gold having, in the course of last year, risen as high as £4 10*s.* or £4 12*s.* (per oz.), has that circumstance been taken into consideration by you, so as to have had any effect in diminishing or enlarging the amount of outstanding demands?" To which he replies—"It has not been taken into account by me in that view." Thus were those two tests repudiated on that occasion—tests which, at least, if taken together and found to concur, would have suggested an inference as to the excess of issue that would have been almost irresistible. The evils which the country sustained from the neglect of any sound principle in the regulation of its circulation at this period, were mainly to be ascribed to the Bank of England, though no doubt they were greatly aggravated by the recklessness of the country banks. No fewer than two hundred and forty of these establishments stopped payment in the years 1814, 1815, and 1816. But it must be borne in mind that the liability of these banks, was to pay either in notes of the Bank of England or in gold, and that they might naturally be led to a disproportionate issue, as well by the

enlargement of the circulation as by the example set them by the parent stock. They were further exposed to that tendency to over-issue, which, as we have already seen, is the necessary consequence of a multitude of issuers.

So far we have been speaking of the various methods which have been proposed for regulating the amount of the circulation under a system of inconvertible paper currency. We have now to see how the amount of a mixed currency, consisting partly of the precious metals and partly of convertible paper, may be regulated. It may be well here, however, for the better understanding of the matter, to call your attention to the nature of the control which a bank has over the amount of its issue. When a bank desires to reduce its circulation, it may do so either by the sale of its funded or other property, or by issuing a less amount in the discount of mercantile bills. In the former case it at once gets in a portion of its notes which had been in circulation; in the latter, it puts a check on the re-issue of the paper which is daily returned by the public in payment of the bills as they fall due. In either case the mercantile community feel the pressure. When a bank restricts the amount of its discounts, its customers, who are deprived of their usual accommodation, feel the restriction directly. When it disposes of its funded or other property, the mercantile accommodation is equally limited, inasmuch as the discount brokers, and bankers who are in the habit of discounting for their custo-

mers, but who do not issue notes, must necessarily limit their accommodation, because of the reduction in the amount of the currency which they have available for this purpose. When a bank determines on reducing its circulation by limiting its issues on mercantile bills, it has a choice of two or three courses. It may refuse to discount more than a given amount each day; or it may raise its rate, and thus limit the amount of applications for discount; or it may produce the same effect by shortening the currency of the bills it will discount. Raising the rate of discount is the course which is ordinarily adopted; within the last ten years the rate at the Bank of England has varied from two and a-half to nine and a-half per cent. At the same time it would appear to be a matter of great importance to a bank, in time of pressure, to have the currency of its bills short: it gives the bank a greater command over its issues; and it protects it to some degree from liability to loss, for, of any given number of mercantile firms, fewer will break in two months than in three.

Now, it was at one time thought practicable to adopt a rule which would be applicable to all but extraordinary occasions, and which would allow of the currency being regulated without any such forced action on the part of the bank. It was conceived that thereby it might be possible to avoid the necessity of putting any restriction whatsoever on the amount of mercantile accommodation; a process which is popularly known as "putting on the screw."

This principle, which was put forward on the part of the Bank of England in the year 1832,* was to this purpose: it proposed that the bank should issue notes on gold and on securities, until the currency was full, and the exchanges at par; that the proportion between the issues on gold and on securities should be such as experience had proved to be sufficient to insure the convertibility of the note—say one-third on gold, the remaining two-thirds on securities; that the bank should keep the amount of its securities unchanged; when exchanges became adverse, and gold was going out of the country, that it should take no action to correct them, but should allow the circulation to be regulated altogether by the action of the public; who, when the exchanges were adverse, would export bullion, which they would obtain from the bank in exchange for their notes, and would import it when they were favourable, for which they would obtain notes in exchange; thereby diminishing the circulation in the one case and expanding it in the other, as occasion might require; the bank meanwhile remaining quiescent, and neither lessening nor increasing the amount of mercantile accommodation. This principle was generally known as that of keeping the amount of the securities even, and allowing the circulation to be regulated by the action of the public.

But a very short experience showed that this principle could not be relied upon. It overlooked entirely

* Report of the Committee on the Bank of England Charter. 1832.

the fact that the action of the public, in demanding gold for export, might fall upon the deposits, and thus that the bullion might be drawn off without any notes having been brought in by the public in exchange, and consequently without any diminution of the circulation, or without any tendency to the correction of the exchanges. Take the case of a bank having three millions of deposits: the public might draw the entire sum out by bank-drafts, without tendering a single note in exchange; but the bank would probably have kept only one million in gold, the remainder it would have invested in securities; so that, in order to honour these drafts, it would be indispensably necessary for the bank to realize its securities to the extent of two millions, and the rule of keeping the amount of its securities unchanged would be at once overthrown. This, it may be said, is assuming an extreme case; but take it that the drafts were but for one million, the deposits being three millions, as before; the coffers of the bank would in such case be drained of that amount of gold which it had kept as a reserve against the demands of its depositors, and it would be obliged to realize its securities—in other words, to diminish its circulation—in order to restore the proportions. The same principle would apply, though the drafts of the depositors were but for half a million, or for any other sum, as the abstraction of any amount of gold whatsoever would diminish the proportion which the bullion of the bank ought to bear to the amount of its deposits. So that while any

portion of the demand for gold, in a period of adverse exchanges, could fall upon the deposits of the bank, it was impossible to observe the rule of keeping the amount of the securities unchanged. That such demand was peculiarly likely to fall on the deposits, was admitted a very few years subsequently to the period when the rule was promulgated, as appears by the following evidence of a director of the Bank of England,* in the year 1840:—

"Referring to the accounts of the bank, does it not appear that the drain in the first quarter of 1839, fell almost entirely upon the deposits, and in no degree on the circulation?

"I believe it fell almost wholly upon the deposits.

"The effect, then, which you anticipated in a former part of your evidence, from any reduction of circulation during a drain, did not take place during that quarter?

"No, not to any considerable extent.

"Would it not have been expedient that the bank should have taken some further measures for the reduction of the circulation, looking to the rapid drain that was going on?

"The bank considered itself at that time bound to adhere, as nearly as it could, to the principle of holding a fixed amount of securities—that principle having been, to a certain extent, recognised by the legislature and the public; but if I am asked now, with my present experience, whether it would not have been wise in the bank to have taken earlier measures, I must say that I think it would have been wise so to do."

Thus it would seem that when a drain for gold sets in, it is most likely to fall on the deposits of the bank; consequently, that the various banks of deposit must, in their own defence, realize their securities, and

* G. W. Norman, Esq. Report of Committee on Banks of Issue, 1840.

thereby unavoidably limit the amount of mercantile accommodation. The mere action of the public, in so far as it falls on the deposits, will produce no effect whatsoever on the circulation; and it may go on until every sovereign which had been kept as a reserve against the drafts of the depositors is drained off from the bank. The principle would be just only on the assumption that the bank kept all the money that was deposited with it idle and unproductive; that it was a mere storehouse, with great hoards of unemployed deposits in its coffers, and no portion of them invested in any profitable securities; that it had, in short, renounced its character as a bank, and departed from the principles on which the profits of a bank of deposit are derived.

As it becomes necessary, then, that some action shall be taken by the bank, it is of the utmost importance that such action shall be taken at once, and before the danger becomes imminent. If the evil be neglected for a time, it will require for its correction an amount of restriction which will be productive of the greatest injury to the mercantile community. It is by securing an early and gradual limitation of the currency that the great rule of the circulation can be best observed—that it shall fluctuate in amount as a purely metallic circulation would have done.

We have now to consider some of the leading provisions of the acts of 1844 and 1845, under which the circulation of these countries is at present regulated. These acts appear to me to have established a mone-

tary system, which is in its principle the soundest of any which has been as yet attempted. Its details, of course, may be modified from time to time, if it should seem to be necessary or expedient to do so. The act of 1844 applies exclusively to England; those of 1845 to Ireland and Scotland. It will be sufficient, however, to examine the English act, as all three are substantially alike. The great object being that the currency should fluctuate, as it would do if it were composed exclusively of the precious metals; it was felt that this end never could be attained, so long as a multiplicity of issuers was sanctioned. We have already examined the arguments which establish the conclusion that a number of issuers must be incompatible, either with the security of the banks themselves, or with a well-regulated currency. In confirmation of these arguments, the legislature had these facts before them: that from the year 1800 to the year 1830, three hundred and forty-eight commissions of bankruptcy had issued against country banks; that in the years 1814, 1815, and 1816, alone, two hundred and forty of these banks had stopped payment; that in the year 1825, there was in one week a destruction of nearly seven millions of this paper; and that, although since the act allowing of the establishment of joint-stock banks in 1826, the failures had been less frequent, yet that the sound principles on which a currency should be regulated had been grossly neglected; that these banks had gone on increasing their issues manifold, in the face of adverse exchanges and a rapid

drain of gold, and that the country had been thereby subjected in the manner which we have already examined, to many and disastrous commercial revulsions. The act of 1844, consequently, prohibits the establishment of any new banks of issue. From regard to existing rights it grants to those which then existed the privilege of still issuing their notes, to an amount, however, not exceeding a certain average of their previous issue. The issue of such banks in the United Kingdom, it was calculated, would be equal to about eighteen millions. The Bank of England it divides into two departments, namely, the banking department, and the department of issue. It provides that the issue department shall issue notes to the banking department on the credit of such securities, coin and bullion, as may be transferred to the former by the latter: but it enacts that the amount to be so issued on securities shall never exceed the sum of fourteen millions, though it makes it lawful to decrease the amount of the securities so held by the issue department, and again to increase the same to any sum not exceeding, in the whole, the sum of fourteen millions, all further issue must be made on the transfer of gold coin, or gold or silver bullion. It provides, however, that if any banker who, at the time of the passing of the act was issuing his own notes, shall cease to do so, it shall be lawful for Her Majesty in council to authorize the Bank of England to increase the amount of its issue, on securities, beyond such sum of fourteen millions, by such additional sum as may be specified

in the order of council, provided that such increased amount of issue on securities shall not exceed the proportion of two-thirds the amount of bank notes, which the banker who ceases to issue may have been authorized to issue, under the provisions of the act. It provides also, that all persons shall be entitled to demand notes from the issue department in exchange for gold bullion, at the rate of £3 17*s.* 9*d.* per ounce of standard gold, and that it shall not be lawful for the bank to hold in the issue department an amount of silver bullion, at any one time, exceeding one-fourth part of the gold coin and bullion at such time held in the issue department. It also enacts, that returns of the amount of its issues, bullion, securities, deposits, &c., shall be published weekly by the Bank of England; and that the average amount of its notes in circulation shall be likewise published weekly by every other English bank of issue.

Thus the largest amount of circulation which could possibly exist in the United Kingdom, not represented by bullion, is £32,000,000—namely, the Bank of England £14,000,000, and all other banks of England, Ireland, and Scotland, £18,000,000; practically it never would reach to this amount, for, as we have seen, every bank will, as a matter of prudence, have a certain proportion of its circulation represented by gold; or what comes to the same, by Bank of England notes, which are immediately convertible for gold in England; or Bank of Ireland notes, which are similarly convertible in Ireland. And this

sum of £32,000,000 was fixed upon as an amount to which paper may safely be issued on securities without perilling the convertibility of the note, because under no circumstance of an adverse exchange can it be supposed that the circulation of the country could fall below this sum; long before it had fallen to this sum the drain for gold would have been checked by the contraction of the circulation. To this extent the use of the precious metals may safely be economized.

Now, you perceive, that this sum of £14,000,000, or of £32,000,000, is a sum which may be altered at any time as the legislature may deem fit, without in the slightest degree affecting the principle of the act. The great principle of the act is this, that there shall always be some limited amount, beyond which notes shall not be issued on securities; that that amount shall be so low that there shall be no possibility of any adverse exchange ever reducing the circulation below it, and so perilling the convertibility of the note; but that all issue of notes beyond this amount shall be made solely in exchange for the precious metals, and that to this latter issue there shall be no limit.

The principal advantages, then, which have been secured to the public, by the provisions of this act, are the following:—

1st. That it prohibits the establishment of any new bank of issue; it so leads to the gradual concentration of the whole issue in one central issuer, and pro-

tects the country from all the evils which, as we have seen, must necessarily be incidental to a monetary system in which there is a number of contending banks of issue.

2nd. That it prescribes a safe limit beyond which the banks cannot issue notes on securities: all issues beyond this limit can only be in exchange for gold or silver. It thereby secures the convertibility of the note, maintains the steadiness in value of the circulating medium, and guards, in a great measure, against severe commercial revulsions. It prevents the banks from increasing their securities at a time when bullion may be flowing from the country, and protects the public from the consequences of the violent reaction which becomes necessary when the stock of bullion is reduced too low, and the public takes the alarm, when, consequently, the most abrupt and severe measures of protection become necessary.

3rd. That, by the weekly publication of the issue, bullion, securities, deposits, &c., of the Bank of England, and of the issues of the several other banks, the public are enabled to judge whether the currency is expanding or contracting, and thus to regulate their dealings accordingly, without being obliged to wait until such expansion or contraction makes itself felt in their own transactions.

In order to insure the observance of the leading provisions of the act, it is obviously necessary that the power of issuing money, and the right of using it for banking purposes, should be kept distinct. If the

bank could create notes for its banking purposes, it would be in its power, at any time, to exceed the amount which it may lawfully issue on securities; or, without unduly creating notes for such purpose, it might proceed to re-issue the bullion which it had regularly received in exchange for its notes, and thus would be in the position of having securities instead of bullion to answer its liabilities. It is to guard against such risks that the act provides, as we have seen, that the Bank of England shall be divided into two departments, the banking department and the department of issue; and so far it would appear that this division of departments, although in the same establishment, has proved sufficient to secure compliance with the provisions of the statute.

Of the issue which is made against bullion, the bank is allowed to issue but one-fifth against silver. No greater amount is permitted, as the object is to secure the convertibility of the note into our standard, which at present is gold; an object which is not interfered with by allowing so small a proportion to be retained in silver, as it is always possible to export the silver bullion, and to sell it for gold, if occasion should require. It seems to be obvious that some such restriction is required, although it has been urged that a larger proportion of silver bullion, say one-third, should be allowed. It is said that this would be for the convenience of merchants, who would thus find in the bank a ready purchaser for the silver which they may receive from abroad, and which they are now

obliged to send for sale to the Continent, and on which it was notorious that the holders could not, in time of severe commercial pressure, receive even an advance from the bank; and it is also said that the bank would willingly purchase silver, as it is always available for export, in righting the foreign exchanges. There is a possible inconvenience resulting from this regulation, which it may be worth while to notice, although it does not seem to be of any great practical importance, as it can only arise when the full proportion of silver is held by the bank; but under such circumstances, if a large amount of sovereigns should be drawn out, the proportions would be thereby altered, and the quantity of silver would be excessive; the bank should then, in order to comply with the requirement of the act, sell silver to restore the proportion, and so reduce the circulation unnecessarily. This is an inconvenience, however, not at all likely to be either considerable or of constant occurrence; and, indeed, it is the unavoidable result of any proportion whatsoever being fixed between the amount of gold and silver bullion.

It is unnecessary to advert to the provisions of the Irish and Scotch acts of 1845, which closely correspond with those of the English act; as in the latter the establishment of all new banks of issue is prohibited, and a fixed amount is prescribed to each bank, beyond which it cannot issue on securities; all further issue must be on a deposit of coin or bullion.

We have now, before we conclude these lectures, to refer briefly to an objection, which, if it were a valid one, would apply equally to every system that could be devised for the regulation of the currency. It has been said, that no matter how well regulated the currency of the country may be, even though it should be made to fluctuate precisely as one composed of the precious metals would do, or even though it consisted exclusively of the precious metals, still the general level of prices is affected by other circumstances than the action of the currency; that it is subject to be elevated or depressed, not merely by this, but also by the action of credit, and further by the amount of bills of exchange; and that, consequently, being influenced but partially by the pure currency of the country, any regulations applying exclusively to the latter must be comparatively of but limited importance.

It seems to be impossible to question the facts stated in this objection, however we may dissent from the conclusion which is derived from them. The effect of credit on prices we have already adverted to. Although the ordinary state of credit—the mere fact of giving a prescribed time for payment—(say that every article were paid for one month after it was purchased)—would appear to have no influence on the general range of prices; yet it cannot be doubted that the effect either of the sudden introduction of a system of credit, or of a sudden increase of the time

to which payment is deferred, would have no small effect, although perhaps but a temporary one, by inducing men to enter into speculations and to make purchases in the expectation of realizing great gain before the day of payment should come about. But the effect of bills of exchange on prices is much greater; they enter at all times, to a great extent, into the circulation of the country; although originating in credit, they affect prices much more than any extension of credit could possibly do; for they pass by endorsement from one man to another, and enable sales to be effected in cases in which credit would not have existed—the bill being taken by the seller, not on the credit of the purchaser, but on that of the acceptor, or of some prior endorser. And even as between the original parties to the bill, no sale would probably, in many cases, have been made on credit, if the vendor had not the power of drawing the bill with which he is himself enabled to make his own payments.

The sum which is thus represented by bills, at any one time, in Great Britain, is something enormous. It has been variously calculated at from one hundred to three hundred millions, these calculations being made either on the Stamp Office returns, or on an average of the amount of the bills paid each day at the Clearing House, with an average of the period at which they were drawn. Unquestionably a very great proportion of these bills do not enter into general circulation. The drawer of a bill sometimes keeps

it in his pocket-book until it reaches maturity; some are for amounts too large, or are drawn at too long a date; on very many the parties are not sufficiently well known; or if known, do not bear a sufficiently well-established character for solvency and punctuality. It cannot, however, be doubted, that bills of exchange, although by no means so active in making payments as bank notes, yet to some very considerable extent do form part of the general circulation of the country. In proof of this it is but necessary to look at the crowd of endorsements which are often to be found on the back of these bills, and which are sometimes so numerous that it becomes necessary to fasten slips of paper to the bills in order to contain them. The precise place, however, which should be assigned to them in the general circulation of the country—the extent to which they can be said to compare in point of efficiency with the regular currency, is a matter very difficult to determine. Mr. Samuel Gurney, the extensive bill-broker, is asked the question,* and answers as follows:—

* "Will you state to what extent, in your opinion, short bills of exchange form a part of the active currency of the country at different times, so as to form a part of the circulation in passing from hand to hand?

"It is impossible to say; I could not give a guess."

Again, the Governor and Deputy-Governor of the

* Committee on Commercial Distress, 1848. Lords.

Bank of England are examined to the same point before the same committee:—

"Do you consider that bills of exchange enter so far into the circulation of the country that the sudden withdrawal of a great portion of them makes a great issue of bank notes necessary to maintain the circulation?

"Decidedly; I consider bills of exchange as auxiliaries to the circulation of the country, particularly at Liverpool, where purchases are made largely of cotton, and payment is made by bills upon London. Naturally the withdrawal of those bills of exchange would render a larger amount of bank notes necessary to fill the space formerly occupied by those bills of exchange.

"So that any circumstance, from whatever cause arising, that suddenly diminishes the number of those bills of exchange, requires a greater issue of notes on the part of the bank?

"It does.

"Whilst you consider that bills of exchange enter into the circulation, do you think that they enter into the circulation in the same degree and in the same proportion in which the same value in amount of promissory notes payable on demand would?

"Certainly not; I do not consider bills of exchange as forming a portion of the circulation; I rather consider them as auxiliaries to the circulation, as relieving the circulation.

"But nevertheless dispensing to that extent with the use of notes?

"Yes."

Thus, although it may be impossible to determine the precise extent to which bills of exchange raise the general range of prices, yet it is obvious that they do raise it to a higher level than it could otherwise, without an increase of currency, have attained to, and may be said to this extent to economize the currency. But when it is contended that because these bills affect the general range of prices, therefore any attempt to regu-

late the currency must be of comparatively small importance, the reasoning appears to me to be erroneous, in this respect, that it overlooks the fact that a well-regulated currency must ultimately control both the state of credit and the amount of the bills of exchange. Credit is given and bills are drawn on the faith of payment in money at the stipulated period; the amount both of credit and of bills must depend on the facility with which money can be procured for the fulfilment of the engagements which are so contracted, and this being so, it follows that, as the currency of the country fluctuates in amount, so must the superstructure of bills and credit which is raised on it.

The opinion of Lord Overstone on this subject is contained in the following answer:*—

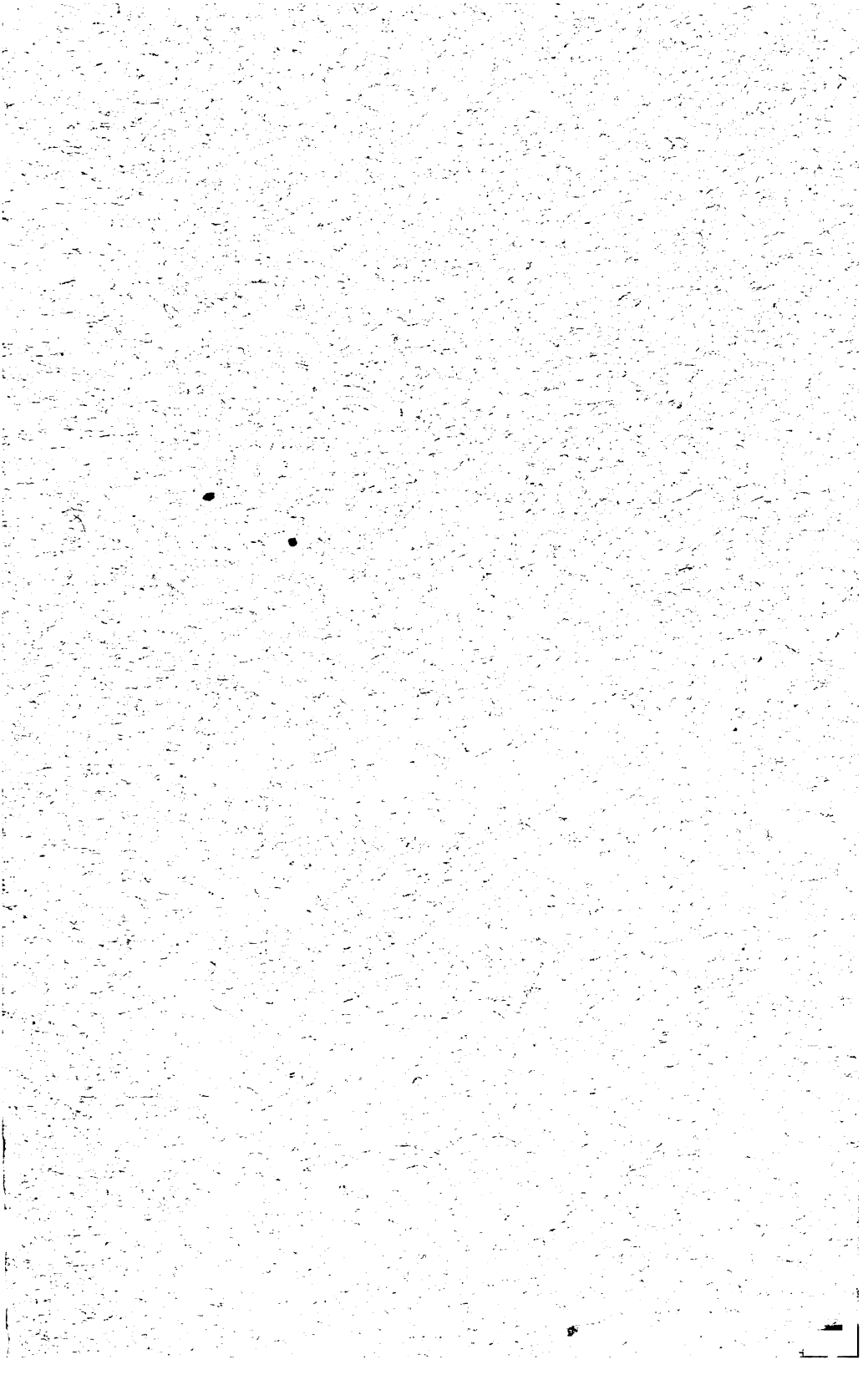
"Is the amount of bills of exchange dependent, in some degree, on the quantity of money?

"I apprehend that it is dependent in a very great degree. I consider the money of the country to be the foundation, and the bills of exchange to be the superstructure raised upon it: I conceive that bills of exchange are an important form of banking operations, and the circulation of the country is the money in which these operations are to be adjusted; any contraction of the circulation of the country will act of course upon credit: bills of exchange being an important form of credit will feel the effect of that contraction in a very powerful degree; they will, in fact, be contracted in a much greater degree than the paper circulation. This point was adverted to in the inquiries of the Committee of 1832, and the question was put in a very pointed form to Mr. Burgess, the secretary of the Country Bankers' Association, and I have therefore extracted the question put, and his answer to it:—'Is it the result of your experience that upon a

* Committee on Banks of Issue, 1840.

contraction of the issues of the bank taking place, the amount of bills of exchange is also narrowed, and is it in the exact ratio or a very increased ratio?—It is in a very increased ratio.' I believe that answer to be perfectly correct."

No doubt these fluctuations may not be precisely coincident, but this want of exact coincidence is but a slight imperfection; and it may be observed, that the correspondence in the fluctuations in amount of the bills and the currency is materially promoted by such regulations as those requiring the weekly publication of the bank returns, which enables the mercantile community to learn the variations of the currency promptly and accurately, and to adjust their credit and bills in conformity to it.

THE END.

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